



UNIVERSITY OF SAN FRANCISCO
CHANGE THE WORLD FROM HERE

MASTER OF NONPROFIT ADMINISTRATION

Walking the Walk: The Role of Impact Investing in Foundation Mission Fulfillment

Zoe Rudman

NPA 622: Nonprofit Data Analysis - Capstone

Spring 2021

Instructor: Dr. Marco Tavanti

What is impact investing?

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

- The Global Impact Investing Network

How can foundations utilize impact investing?



Spectrum of impact investing for foundations



Source: Silicon Valley Community Foundation

Program-related investments (PRIs)

Program-related investments (PRIs) are those in which:

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.
 - The IRS

- Also known as PRIs, program-related investments are a type of investment defined by the IRS, specific to private foundations
- Primary purpose is charitable
- Typically managed by program officers or grants managers
- Often takes the form of a low-interest loan
- Can count towards 5% annual payout rate

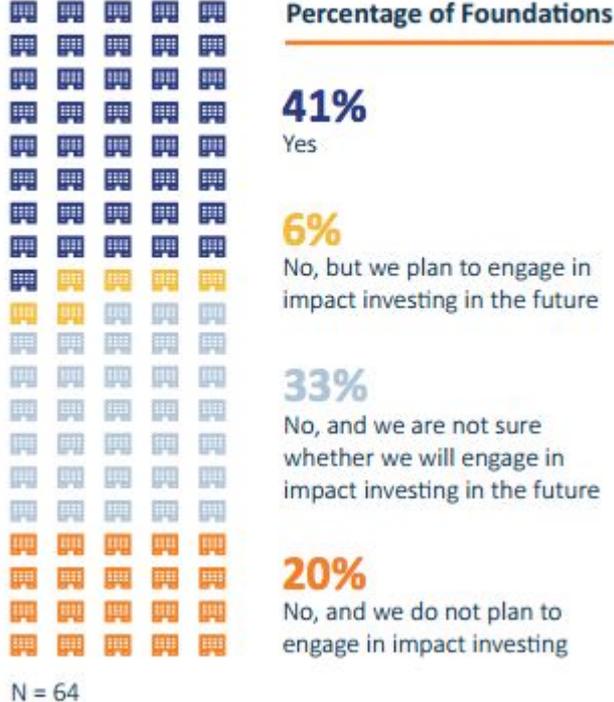
Mission-related investments (MRIs)

- Not explicitly defined by the IRS
- Primary purpose is financial return, but with a social purpose
- Part of a foundation's overall investment portfolio, but with an orientation to the foundation's mission and values
- Typically managed by investment managers or external wealth managers
- Often, foundations will dedicate a carve-out of the endowment to dedicate to MRIs, but some foundations, such as The FB Heron Foundation, have more complete mission-alignment in their endowment investing

Foundations' role in impact investing

- Foundations are only legally required to pay out 5% of their assets annually. This 5% goes to their traditional grantmaking portfolio, and this is what is most often reported as their “impact” or “mission fulfillment”
- The other 95%, their endowment, is typically invested in market-rate investments, to generate a financial return so the foundation can continue its grantmaking in perpetuity
- Recent conversations in philanthropy around spending down, and the impact of the COVID-19 pandemic and calls for racial justice, have led to increased scrutiny of foundations “hoarding” assets
- That 95% could be also be working towards mission fulfillment, or at least in service of the community

FIGURE ONE.
Does Your Foundation Engage in Impact Investing?



Source: CEP <https://cep.org/portfolio/investing-and-social-impact-practices-of-private-foundations/>

Objectives

This research examines how various types of foundations are utilizing impact investing activities, such as program-related investments (PRIs) and mission-related investments (MRIs), as a function of their mission fulfillment. It also explores motivations for and barriers to foundations getting involved in impact investing, and how these organizations are communicating about these activities.

Research questions

1. How are foundations utilizing impact investing as a function of their mission fulfillment?
2. What are the primary motivators for foundations to get involved in impact investing, and what are the primary barriers?
3. How are foundations communicating their impact investing activities to their stakeholders?

Methods

Literature review

- Explores the general field of impact investing
- Places foundations in the context of the larger field
- Current PRI and MRI activity among foundations
- How foundations measure impact
- How foundations can integrate investments with their grantmaking portfolio

Expert interviews

Sarah Abbe Taylor
Program Related
Investments Officer,
The San Francisco
Foundation

Jen Astone
Principal,
Integrated Capital
Consulting

Melanie Audette
Senior Vice President,
Mission Investors
Exchange

Rachel Bass
Senior Manager,
The Global Impact
Investing Network

Rebekah Butler
Co-Executive Director,
The Grove Foundation

James Cutler
Senior Investment
Officer,
Silicon Valley Community
Foundation

Jamie Dean
Director, Impact
Investments,
The Schmidt Family
Foundation

Christine Reyes
Chief Financial Officer,
The Women's
Foundation of California

Sonja Swift
Program Advisor, Swift
Foundation

Key Findings for RQ1: How are foundations utilizing impact investing as a function of their mission fulfillment?

- **Impact ≠ mission alignment:** Even if a foundation is engaging in impact investing, that doesn't mean the impact is directly aligned with the foundation's specific mission
 - PRIs are seen as more mission-aligned than MRIs
- **The iron curtain is getting in the way:** The divide between program and investment teams prevents the investment team from engaging on more “mission” aligned activities
- **Impact investing as an “add-on”:** Most foundations engaged in impact investing see it as an add-on, and not core to their mission fulfillment
- **Part of a foundation's toolkit:** Impact investing is just one of the tools foundations can use to further their mission

Key Findings for RQ2: What are the primary motivators for foundations to get involved in impact investing, and what are the primary barriers?

- **Motivators**

- **Peer pressure:** Foundations don't want to be called out for investing in things that are in opposition to their mission, or accused of not utilizing their resources to their full potential
- **Walking the walk:** Foundations acknowledge the cognitive dissonance that exists when their investments aren't aligned with their mission and/or organizational values

- **Barriers**

- **Lack of shared organizational understanding:** Foundations don't have a shared language around impact investing or a common understanding of how impact investing works and could further the foundation's mission
- **Needs to come from the top down:** As with many organizational changes, starting down the impact investing path often needs to come from the board or executive level, as opposed to a bottom-up approach
- **Again, the iron curtain is getting in the way:** It's been a long-held belief that grants are separate from investments, and that grants are the thing that generate "impact" for the foundation
- **Lack of staff capacity and/or expertise:** Small foundations may not feel they have the capacity to devote to investing activities, or the staff expertise to do the due diligence required
- **Uncertainty around IRS laws:** Many foundations don't believe that MRIs are legal, or that they will be betraying their legal duty to sound financial stewardship
- **Misperception of impact investing:** Many people believe that impact investing requires you to make a sacrifice on financial return
- **Outside wealth managers:** Many foundations have their endowments managed by outside firms, and these firms may be focused solely on financial return or not have the expertise or interest in impact investing

Key Findings for RQ3: How are foundations communicating their impact investing activities to their stakeholders?

- **Communications staff is essential:** Many foundations engaged in impact investing don't communicate about their activities because they don't include their communications staff from the start
- **Lack of shared language:** The wide range of terms and lack of common definitions create difficulty in communicating
- **Transparency:** Foundations who are communicating about their activities are often very transparent in all other organizational aspects
- **Opportunity to move the industry:** Both foundations who are and aren't communicating about their impact investing see the potential to move the industry through story-telling
- **Communication through informal channels:** Foundations may learn from each other through conversations, but not necessarily publicly available information

Implications

- **The sector is complex:** There's many different players involved in the impact investing ecosystem, there's many ways for foundations to experiment with impact investing activities, and there's many different definitions for a wide range of impact investing jargon
- **The sector is growing:** The events of the past year have led foundations to look for alternative ways to create impact, as well as increased public scrutiny of foundation practices. This has sped up interest in an already rapidly-growing sector
- **Spending down can free up impact investing opportunities:** Recent calls for foundations to spend down could affect foundation impact investing activity, as there's no need to preserve the endowment to continue grantmaking in perpetuity
- **The IRS could clarify investing rules in the future:** Uncertainty around IRS rules prevents many foundations from getting involved in impact investing. The IRS could clearly define mission-related investing for foundations, and in the future, potentially even require it
- **Potential of donor-advised funds:** Community foundations have the added complexity of DAFs, and creating impact investing pools for donors to contribute to could be another huge source of capital for impact investing

Recommendations

Shared language: create shared internal definitions of impact investing terms as they pertain to your foundation, to create shared understanding across your whole organization.

Break down the iron curtain: Create more communication and alignment between the program and investing sides of the foundation

Be transparent: Share your investing activities and learnings with stakeholders to be transparent and so that others can learn from you

Start somewhere: Start with one impact investing activity, like doing a few PRIs or a carve-out of your endowment to dedicate to MRIs

References

- Buchanan, P., Glickman, J., & Buteau, E. (2015, May). Investing and Social Impact: Practices of Private Foundations.
<https://cep.org/portfolio/investing-and-social-impact-practices-of-private-foundations/>
- Emerson, J. (2003b, Summer). Where Money Meets Mission: Breaking down the firewall between foundation investments and programming. *Stanford Social Innovation Review*, , 38-47.
https://ssir.org/articles/entry/where_money_meets_mission
- Qu, H., & Osili, U. (2017). Beyond Grantmaking: An Investigation of Program-Related Investments by U.S. Foundations. *Nonprofit and Voluntary Sector Quarterly*, 46(2), 305-329.
<https://10.1177/0899764016654281>
- Searing, J. M. (2008). Capital With a Conscience. *Journal of Accountancy*, 206(1), 54-58.
<https://search.ebscohost.com/login.aspx?direct=true&AuthType=sso&db=edb&AN=32993232&site=eds-live&scope=site&custid=s3818721>
- Wood, D., & Hagerman, L. (2010). Mission investing and the philanthropic toolbox. *Policy and Society*, 29(3), 257-268. <https://10.1016/j.polsoc.2010.07.005>



WALKING THE WALK: THE ROLE OF IMPACT INVESTING IN FOUNDATION MISSION FULFILLMENT

Zoe Rudman, MNA - Master of Nonprofit Administration - Capstone Project

SUMMARY

This research examines how various types of foundations are utilizing impact investing activities, such as program-related investments (PRIs) and mission-related investments (MRIs), as a function of their mission fulfillment. It also explores motivations for and barriers to foundations getting involved in impact investing, and how these organizations are communicating about these activities.

PURPOSE

Foundations are only legally required to pay out 5% of their assets annually, often through traditional grantmaking portfolios, which is reported as their “impact.” The other 95% of their assets could be working in service of mission fulfillment, or at least in service of community, through impact investing.

RESEARCH QUESTIONS

- How are foundations utilizing impact investing as a function of their mission fulfillment?
- What are the primary motivators for foundations to get involved in impact investing, and what are the primary barriers?
- How are foundations communicating their impact investing activities to their stakeholders?

METHODS

- **Literature review**
- **Expert interviews:** Hour-long, semi-structured interviews with nine different impact investing staff and field experts were conducted

LITERATURE REVIEW

- General field of impact investing
- Foundations’ role in that field
- Current PRI and MRI activity within foundations
- How foundations measure impact
- How foundations can integrate investments with grantmaking portfolio



Source: Silicon Valley Community Foundation

EXPERT INTERVIEWS

Sarah Abbe Taylor
Program Related Investments Officer,
The San Francisco Foundation

Jen Astone
Principal,
Integrated Capital Consulting

Melanie Audette
Senior Vice President,
Mission Investors Exchange

Rachel Bass
Senior Manager,
The Global Impact Investing Network

Rebekah Butler
Co-Executive Director,
The Grove Foundation

James Cutler
Senior Investment Officer,
Silicon Valley Community Foundation

Jamie Dean
Director, Impact Investments,
The Schmidt Family Foundation

Christine Reyes
Chief Financial Officer,
The Women’s Foundation of California

Sonja Swift
Program Advisor, Swift Foundation

KEY FINDINGS

- Impact ≠ mission alignment
- Majority of foundations not engaged in impact investing, those who are mostly choose one activity and see it as an “add on,” not core to their mission
- The iron curtain between program and investment teams prevents comprehensive reporting on ALL foundation financial activities/impact
- Biggest barrier for foundations is lack of staff expertise and internal shared understanding

RECOMMENDATIONS

- **Shared language:** Create a shared internal understanding of impact investing terms
- **Break down the iron curtain:** Create more communication and alignment between program and investing sides of foundation
- **Be transparent:** Share your investing activities with stakeholders so others can learn from you
- **Start somewhere:** Start with one impact investing activity, like PRIs or an MRI carve-out, and grow from there

REFERENCES

- Buchanan, P., Glickman, J., & Buteau, E. (2015, May). Investing and Social Impact: Practices of Private Foundations. <https://cep.org/portfolio/investing-and-social-impact-practices-of-private-foundations/>
- Emerson, J. (2003b, Summer). Where Money Meets Mission: Breaking down the firewall between foundation investments and programming. *Stanford Social Innovation Review*, 38-47. https://ssir.org/articles/entry/where_money_meets_mission
- Qu, H., & Osili, U. (2017). Beyond Grantmaking: An Investigation of Program-Related Investments by U.S. Foundations. *Nonprofit and Voluntary Sector Quarterly*, 46(2), 305-329. <https://doi.org/10.1177/0899764016654281>
- Searing, J. M. (2008). Capital With a Conscience. *Journal of Accountancy*, 206(1), 54-58. <https://search.ebscohost.com/login.aspx?direct=true&AuthType=sso&db=edb&AN=32993232&site=eds-live&scope=site&custid=s3818721>
- Wood, D., & Hagerman, L. (2010). Mission investing and the philanthropic toolbox. *Policy and Society*, 29(3), 257-268. <https://doi.org/10.1016/j.polsoc.2010.07.005>