Frameworks for Families

THE IMPACT

Impact Investing for Family Foundations

The ImPact is a membership network of family enterprises (family offices, foundations, and businesses) that are committed to making investments with measurable social impact. The ImPact provides families with the knowledge and network they need to make more impact investments more effectively, and uses sophisticated technology for data aggregation, analysis, and reporting to shift the narrative of impact investing from one of inputs (dollars committed) to outcomes (impact created). Our purpose is to improve the probability and pace of solving social problems by increasing the flow of capital to investments generating measurable social impact.

IMPACT INVESTING
A PRIMER FOR FAMILY FOUNDATIONS

A foundation is a powerful platform through which families can express their values in society. Yet, most families only use a small portion of their foundation assets to pursue their philanthropic missions. Funding solutions to the world's toughest challenges requires far more resources than are available through foundations' grantmaking alone. As families grapple with the scale of these challenges, many are seeking ways to activate more of their philanthropic assets towards their missions. Impact investing is a powerful tool for maximizing a foundation's assets for good. This primer is a guide for families looking to align and activate their foundation's assets to achieve their social and environmental objectives while meeting their foundation's financial needs.

Setting the Scene

Families typically establish foundations to address the challenges in society about which they care about most. For many families, a foundation is a means to perpetuate family continuity and build a multigenerational legacy of philanthropy. According to the Foundation Center, over one-third of the existing USA-based family foundations have been established since 2000.[1] In 2001, there were 3,200 family foundations making $6.8 billion in grants; the latest data shows that the United States is home to over 40,000 family foundations making annual grants totalling $21.3 billion.[2] Global philanthropy from high net-worth individuals is also rising, particularly in Europe, but also in the Middle East, and Asia.[3]

Family foundations have at their disposal a variety of levers to create social change. Traditionally, families pull only 5 percent of those levers, and only in one direction: grantmaking to nonprofit organizations. This primer helps reveal some of the opportunities available for foundations to use the other 95 percent of their resources, as well as the creative ways capital traditionally distributed as grants can be invested to amplify the impact of a foundation.

A growing number of families are now actively considering the relationship between their foundation's mission and the investment strategy of its endowed assets. These families are looking at both their annual distributions (the "5 percent") and the endowed assets (the "95 percent") as resources that they can use to pursue their social and environmental objectives.[4]

Not every family foundation will be able or willing to make use of all of the tools at their disposal. But knowing the options

Key Definitions:

Impact Investing refers to strategies that actively incorporate social and environmental factors into investment decisions. Impact investments can be made across asset classes, sectors, geographies, impact strategies, and return profiles.

Program-Related Investments (PRIs) are investments made by a foundation out of their allotted grant-making funds. PRIs are a defined legal category, subject to regulation. Under USA tax law, PRIs must directly relate to a foundation's mission, may not have as a significant purpose the production of income or appreciation of value, and may not be spent to influence legislation or take part in a political campaign.[5]

Mission-Related Investments (MRIs) are investment made within a foundation's endowment that are aligned with or advance a foundation's mission. MRIs are not a defined legal category and many foundations use their own terminology for MRIs. As there are no legal or technical parameters to what qualifies as an MRI, and because the terms used to refer to them are so varied, we have chosen not to use the label MRI within this primer. Instead we use more general terms such as mission-aligned, mission-driven, or values-aligned investments.

available can help any foundation make more informed and strategic decisions about how to use their philanthropic capital to address urgent social and environmental challenges. With the financial and mission constraints of their assets in mind, foundation leaders can carefully consider what to do with what they have.

> **Families often see a foundation as a vehicle to express their passions, concerns, and values in the world.**

Principal Motivations for Making Impact Investments out of a Family Foundation

Intergenerational engagement is a major motivation for families to establish a foundation. As Millennial family members assume leadership roles within foundations, their interest in impact investing[6] is a driving force behind foundations' engagement with mission investing. As families' seek consensus on how to incorporate impact investing into their philanthropic work, the motivations around which they come together shape the impact investment strategy they pursue. Three basic motivations ImPact member families identify for their foundation's impact investment strategies are:

Values Alignment

Families often see a foundation as a vehicle to express their passions, concerns, and values in the world. To many families, aligning the investment strategy of the foundation with these core family interests enables deeper family engagement with their philanthropic work. For some families, a foundation may be the one platform (or the first platform) through which they can align the value their assets create with the values they share.

Using Business to Address Specific Social and Environmental Challenges

One major trend of the last two decades is the influence of business principles on the practice of philanthropy.[7] "Financial sustainability," "scalability," "monitoring and evaluation," "innovation," and "entrepreneurship" have become the watchwords of forward thinking philanthropists. The acceleration of this phenomenon has given rise to the fields of venture philanthropy, strategic philanthropy, social enterprise, and impact investing. At the heart of this movement is philanthropists' desire to find the most efficient means to achieve the greatest impact at scale. Not surprisingly, philanthropists have come to recognize that business and finance can be effective tools for accomplishing that goal.

The idea of business and finance as tools to achieve operationally sustainable impact at scale has played out within foundations in several ways: today foundations are making loans to nonprofits, direct equity investment into growing businesses, and investing in impact-focused private funds. Philanthropic investors at family foundations are identifying the business models best suited to addressing the problems they want to solve and deploying the appropriate kind of capital to fund them.

Social and Environmental Impact Drive Long-Term Outperformance

The convergence of business and philanthropy is also reshaping traditional investment practices. While many families begin considering impact investing as a tool to use alongside their grant-making, a growing number of families recognize that the investment portfolios of their foundations' endowments are susceptible to the same social and environmental forces that their grant dollars are often working to address.

Trustees consider the social and environmental exposure of a foundation's portfolio in order to minimize risk — both financial and reputational — and invest for long-term outperformance. A growing body of evidence shows that companies with a rigorous sustainability focus financially outperform comparable companies with poor sustainability records.[8] Furthermore, companies that address the most complex environmental social and environmental challenges of our time are poised to generate financial returns as they scale their businesses within multi-trillion dollar global industries.

Whatever their motivation may be, families can start with a basic question: What resources do we use to achieve our philanthropic goals?

Families traditionally view grant-making as the primary (or sole) vehicle to pursue their social and environmental objectives. The USA government requires that private foundations must spend at least 5 percent of the value of their assets each year on grants, necessary administrative costs, and other activities related to the mission of the foundation. The remainder of a foundation's assets are invested to generate a sufficient return to meet the foundation's financial needs and objectives. Most foundations are organized for perpetual existence and families expect that the grant-making capacity of their foundation will maintain or grow over time; this requires that the foundation's endowment earn an average annual return that exceeds the foundation's expenditures plus the cost of inflation.

Trustees and investment managers are bound by fiduciary duty, requiring that they invest foundation assets with appropriate care and prudence. Many trustees have interpreted this duty as prohibiting them from pursuing impact investments within the endowment, as they have assumed that impact investments pose significant risk or must pursue below market-rates of return. Neither of these assumptions is true, and a new consensus on fiduciary duty is emerging that clearly affirms trustees' ability (or, some have

Taking A Step Back: is a foundation the most effective way to achieve my family's philanthropic goals?

The tax-advantaged status of private foundations incentivizes families to establish foundations as part of their estate and tax planning processes.[12] Some philanthropists are now deciding that despite their tax advantage, foundations are not the most effective vehicle through which to achieve their social and environmental goals.

Pierre Omidyar, co-founder of eBay, and his wife, Pam, have spoken widely on the question of what legal entity was most effective to pursue the change they wished to see in the world. The Omidyars initially set up a traditional family foundation, but soon found that the structure did not allow them to affect change at their desired pace and scale. The Omidyars' experience with eBay had demonstrated to them that businesses have the power to improve the world; they wanted to harness that power through their philanthropic work as well. The structure of a foundation, however, prevented them from easily making equity investments in for-profit companies.[13]

The Omidyars decided to establish a limited liability corporation (LLC) alongside their foundation, together the two entities now constitute Omidyar Network. The LLC officially employs all of the staff of the operation, while the organization continues to write grant checks out of the 501(c)(3) foundation where appropriate. The LLC structure enables Omidyar Network staff to conduct due diligence on funding opportunities "without regard as to whether the work turn[s] into a nonprofit grant or a for-profit investment."[14] This structure provides the Omidyars with the flexibility to use a range of financial tools that extend across the risk-return spectrum from grantmaking to market-rate risk-adjusted investments. The Omidyars have long understood that different kinds of problems require different solutions and those different solutions require different financial tools to boost viability and scalability. Omidyar Network provides them with the opportunity to tailor financing specifically suited for each investment opportunity.

Other leading philanthropists are electing to use LLCs to finance social and environmental change. Mark Zuckerberg, founder and CEO of Facebook, and his wife Dr. Priscilla Chan have followed in the footsteps of the Omidyars and established their own LLC for similar reasons.[15] So too has Laurene Powell Jobs, the widow of Steve Jobs who has established Emerson Collective as an LLC out of which she pursues philanthropic goals.[16]

While this primer discusses the ways in which families make impact investments across the entire portfolio of their foundation, families who are at the very first step of deciding how to pursue their social or environmental goals, may first consider the larger question of whether a private foundation is the legal entity best suited to their purpose.

The first step in developing an impact strategy is to know what you own.

argued, obligation[9]) to integrate social and environmental factors into their investment decision-making.

A 2015 IRS ruling on impact investments was pivotal in supporting the argument that impact investments do not, by definition, violate the fiduciary duty of foundation trustees.[10] The IRS confirmed that fiduciaries are not subject to penalty for making an investment that furthers the foundation's charitable purpose so long as the fiduciaries have exercised ordinary business care and prudence in making the investment.[11] This ruling confirms that family foundation fiduciaries can consider all of the foundation's assets vis-a-vis the mission of the organization without violating their legal duty.

A natural place to begin impact investing: Can we reduce and/or avoid contradiction between our endowment investments and our mission?

The first step in developing an impact investment strategy is to know what you own. Once a family knows in what the foundation endowment is invested, it can begin to identify points of current and potential contradiction with the foundation's mission specifically, or with family values more generally. Family members may discover that their foundation is invested in an industry or a company whose activities conflict their their mission or values. A foundation that has as its mission the issue of finding a cure for cancer, for example, may find that it has substantial investments in tobacco companies. Or a foundation dedicated to animal rights may find that they are invested in a pharmaceutical company that conducts inhumane animal testing. Some families have discovered that the value of these contradicting assets surpasses the grantmaking dollars given to address the relevant societal issue. Regardless of whether a family is proactively pursuing impact through their endowment, reducing and preventing contradiction with its mission can lower the reputational (and often, financial[17]) risk of the foundation.

Negative Screens

To reduce contradiction in their portfolio and work towards mission-specific or general values alignment, foundations often screen public equity and public debt investments, a tried and true method that foundations have used for decades. Negative screens, i.e., excluding certain securities based on criteria of alignment with the foundation's mission, and not on financial factors,[18] is a relatively simple way to avoid contradiction. The Rockefeller Brothers Fund, for example, has as central to its mission the issue of climate change. And yet, up until 2014, the endowment had a small but significant exposure to fossil fuels including coal. Citing the "moral discomfort" created by this mission contradiction, the investment committee and board of trustees have dedicated themselves to divesting from all fossil fuels investments in the endowment.[19] The McKnight Foundation took similar action in their public debt portfolio. Together with one of their fund managers, Mellon Capital Management, McKnight worked to remove coal as well as mining and other companies with underground coal reserves from its fixed income portfolio.[20]

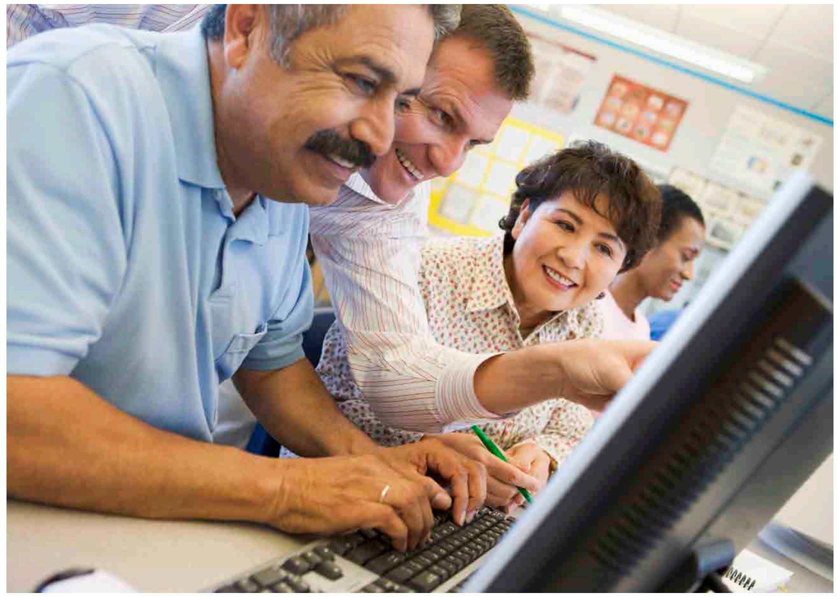
In some cases, the mission of a foundation may not lend itself to clear investment alignment. Where mission-specific alignment across the portfolio is a challenge, families can align the foundation's investments with broadly-defined family values and social and environmental concerns. The divest-invest movement, for example, has over 140 foundations representing more than $12 billion committed to divest existing investments in the top 200 fossil fuel companies and invest at least 5 percent of their portfolios into climate solutions.[21] While not every one of those 140 foundations has climate change as an explicit part of their philanthropic mission, each is committed to supporting the fight against climate change.

Positive Screens

Some foundations are also using positive screens to actively invest in public equity and public debt funds that select best-in-class securities according to environmental, social, and governance (ESG) factors. Positive screens offer an opportunity for a foundation to positively align their public equity and public debt portfolios with with a foundation's mission by proactively including companies whose operations are broadly consistent with a foundation's values and objectives. In 2005, the F.B. Heron Foundation set out to research and develop a public equity strategy to actively screen securities according to their alignment with the foundation's mission: to help people and communities help themselves out of poverty. F.B. Heron and State Street Advisors built a fund composed of best-in-class companies according to the quality of their engagement with low- and moderate-income communities in the United States. The fund they created was designed as a commingled investment product in an effort to attract other institutions with similar mission-orientations for co-investment.[22]

The next step: Can we move from alignment to activation?

Many family foundations are trying to tackle big problems in the world that are byproducts of an economic system and the operations of businesses within it. Families may recognize that addressing the causes of these problems requires getting into the system itself. Family members and trustees have an opportunity to activate endowment investments to leverage the scale and scope of financial markets to propel forward the change they seek to create. Of course, trustees must bear in mind the constraints of the portfolio, including liquidity requirements, growth targets, risk tolerance, and asset allocation. Those



constraints as well as the specific mission of the foundation may limit the type and amount of resources available for mission activation. Foundations with a broad mission will more easily find opportunities throughout their portfolio to activate resources in pursuit of their mission, while foundations with a more narrow geographic or thematic focus may only have a handful of investable opportunities.

Proxy Voting

Family foundations can leverage their rights as shareholders to help change the policies and practices of public companies, a unique vehicle for creating social and environmental impact at scale. Foundations committed to LGBTQ rights, for example, have used shareholder resolutions to change the anti-discrimination policies at the world's largest leading employers, bringing new employment protections to millions of employees worldwide.[23]

The Nathan Cummings Foundation has long been committed to voting its proxies and participating in shareholder coalitions. In 2016, the foundation led a shareholder effort calling on Duke Energy Company to proactively assess how it could adapt its business model to include more renewable sources in its energy production in order to reduce greenhouse gas emissions and reduce the company's exposure to climate-related risk. Duke Energy responded to the resolution by adapting its annual reporting to include analysis of climate-related risks and opportunities for greater production from renewable energy sources.[24]

Targeted Public Debt

Family members and foundation trustees are increasingly activating their fixed income allocation toward the mission of the foundation or towards general values alignment. A number of family foundations have invested in the CRA Qualified Investment fund, a market-rate bond fund that invests to positively impact communities throughout the United States.[25] The CRA Qualified Investment Fund was launched in 1999 and as of September 30, 2012 has invested over $4 billion in market-rate impact investments nationwide.[26] The W.K. Kellogg Foundation made a $10 million investment into the CRA-fund earmarked for financing the University of New Mexico's Sandoval Regional Medical Center. The population of Sandoval County has historically been underserved in many respects, and in particular when it comes to high-quality healthcare. This fixed income investment made by the Foundation directly advanced its mission in the state of New Mexico, one of the three states in which the W.K. Kellogg Foundation focuses its efforts.

Private investment can be a very effective tool for investing in systematic change.

Private Investments

Many families have found that, in certain cases, private investments, (e.g., venture capital, private equity, private debt, and real assets,) through their foundation's endowment can help scale commercially viable solutions to societal problems. Especially when the issues a foundation aims to address are deeply embedded in the economy, such as healthcare, education, or energy consumption, private investment can be a very effective tool for investing in systemic change. Private investment can offer large-scale opportunities to align market incentives so that they result in better outcomes for communities and ecosystems in need.

The Rockefeller Brothers Fund, for example, made an investment in July of 2016 in Mainstream Renewable Power, a global wind and solar power company. This investment will help fund the expansion of clean energy supply across the African continent. This funding round raised a total of $117.5 million and included investors such as the International Finance Corporation. In total, the RBF's investment will help catalyze what is expected to be $1.9 billion in funding for renewable energy for the region.[27]

The Russell Family Foundation has a place-based impact strategy in the Pacific Northwest of the United States. As part of its pursuit to protect the precious natural resources of that region, the Russell Family Foundation made a real asset investment with the Ecotrust Trust Forest Investment Fund. Ecotrust buys rainforest land in the Pacific Northwest and sustainably manages the land, including sustainable harvest of timber, retaining maximal carbon absorption, and improving wildlife habitats. The fund now owns 30,000 acres and is targeting a competitive rate of return alongside significant, measurable impact.

Financial Returns from Impact Investments

A growing number of family members and trustees are considering alignment between their endowment portfolio and environmental, social, and governance values. And the financial track record of commercial impact investments is promising. A growing body of evidence indicates that ESG public equity investing shows no performance penalty and there is some initial evidence that ESG factors may have a positive influence on long-term performance.[28] In a private investing context, evidence shows impact-focused venture capital funds outperform their conventional counterparts in certain categories and meet the benchmark in many others.[29] Impact investing through the endowment can be an effective lever for change, and can make good business sense. Foundations can draw from the growing pool of impact investments that generate market-rates of financial return. In many cases, they are investing alongside purely commercial investors. Indeed, a family considering a mission investment strategy for its foundation may already be making impact investments with its taxable assets.

Can we use finance as a tool alongside grantmaking to more effectively achieve our social and environmental objectives?[30]

Impact investments that seek market-rates of return are the right way to finance commercially viable enterprises capable of generating impact and financial value at scale. But many of the most promising interventions do not yet merit commercial investment. Grants, on the other hand, are the right tool for funding initiatives that are essential to society but cannot—or should not—generate financial return to their funders. These initiatives are indispensable but cannot alone meet the scale and character of many of the social and environmental problems families are committed to addressing. Between commercial markets and purely philanthropic ventures exists a marketplace of opportunities that need patient, flexible forms of mission-driven financing.

A family committed to reviving economic vitality in their home community may recognize that small businesses, affordable housing developers, schools, and healthcare organizations may need a mix of financing to achieve their aims. Pioneering entrepreneurs in emerging markets or local technology innovators may be building businesses that can transform communities or solve major problems at massive scale, but they need long-term, concessionary funding to overcome the innumerable challenges they face in their development towards commercial viability.

These opportunities require a special kind of financing, from investors that recognize that business and finance can be powerful tools for creating impact even where financial return is not a primary motivation or does not satisfy the expectations of conventional investors. Family foundations may consider making investments alongside their normal grant activity to help meet this need. USA-based foundations may make return-generating investments out of their annual distributions, so long as the investments met three criteria[31].

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.

These program-related investments allow foundations to increase the total volume of capital available to mission-driven organizations that have strong business models. PRIs count toward a foundation's distribution requirement in the year that they are made, and any returned capital from a PRI is added to the distributable amount for the following year.[32] Because PRI dollars are returned to the foundation, those same resources can be redeployed into another project to continuously expand the impact of the foundation's distirubtion dollars.

Today, family foundations are deploying program-related investments to fill critical gaps in financing for social organizations and fund high-impact businesses in sectors or geographies deemed too high-risk by conventional funders. Families can use program-related investments to provide essential funding to sustain or scale effective nonprofits or to help catalyze

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greater flows of commercial capital towards early-stage businesses and markets with enormous potential to create social and environmental impact.

PRIs to Fill a Market Gap

The most common of this type of PRI is a loan to a nonprofit with consistent revenues.[33] Loans to nonprofits can be a powerful tool for helping to establish and stabilize organizations and offer an investee the opportunity to make long-term strategic plans, increase capacity, and build financial history for future. In 2016, the McConnell Foundation, for example, made a PRI into the loan fund Fonds Investissement Montréal IV in order to provide additional capital for nonprofit housing organizations to update and renovate affordable housing units without raising rent for residents.

PRIs can also fill financing gaps for-profit companies. PRIs made to fill for-profit financing gaps are most common when when the location, stage, business model, or population targeted by a business creates an investment risk profile that limits or precludes commercial investment.

The Bill and Melinda Gates Foundation, for example, makes PRIs into funds that invest in companies that are uniquely capable of developing scalable solutions to the foundation's focus issues. In 2009, the Bill and Melinda Gates Foundation made a PRI into the Africa Health Fund, a private equity fund focused on companies that provide high-quality, low-cost, accessible healthcare to citizens of African countries who otherwise would not have access to healthcare.

At a point in time when most of the region's poor rely on private healthcare,[34] the Bill and Melinda Gates Foundation is making this PRI to stimulate private-sector innovation to address the enormous unmet need for healthcare in Sub-Saharan Africa. In this case, the Bill and Melinda Gates Foundation determined that the issue of accessible, affordable healthcare for populations across Sub-Saharan Africa can be effectively addressed using business—at least as part of the solution—and that concessionary capital was necessary in order to fund them given the perceived risk of the venture.

PRIs to catalyze more capital

Families can use PRIs to catalyze greater flows of commercial capital to impact enterprises. One way foundations do this is by providing loan guarantees that unlock the possibility of commercial investment into an organization that otherwise would be deemed too risky. By changing the risk profile of a loan, a PRI can lower the cost of capital for the enterprise or qualify them for commercial lending. In 2005, the Rockefeller Foundation made a $5 million loan guarantee to the New York City Acquisition Fund. NYCAF was established to provide loans to developers for affordable housing in New York City. In the New York City real estate market, affordable housing developers are at a disadvantage because of the pace and price of the market. NYCAF acts as a market intermediary, absorbing much of the risk of default so that the affordable housing developers can qualify for loans from commercial banks at interest rates 1 percent above the benchmark rate that banks use to lend to one another overnight.[35]

Foundations can also make PRIs that unlock new sources of capital for investment in social solutions by taking, for example, a first-loss position or a capped return on their investment. Several foundations are making creative use of the so-called "capital stack"* in order to catalyze dollars from conventional investors alongside their concessionary capital.

The David and Lucile Packard Foundation made a $10 million PRI into Ecotrust Forest Management's second fund that helped attract an additional $10 million in founding equity from a private investor. In total, the concessionary PRI bolstered $42.2 million in equity investments from institutional investors, individuals, and other foundations.[36] The CEO of Ecotrust Forest Management, a recipient of a PRI from the Packard Foundation, noted, "The [Packard] Foundation's PRI debt was instrumental to launching our second fund, allowing us to attract nearly five times the investment in private and tax credit equity, which wouldn't have otherwise been possible."[37]

The Packard Foundation notes in its literature about this PRI that beyond the dollars of the PRI that work to attract other capital, foundations can help add credibility to the impact claims of the investee. Foundation program officers are often experts in a particular issue area, and their endorsement of a particular PRI investee can be an important validation for other investors who are looking for financial as well as impact returns.

Family foundations are using program-related investments to fill market gaps and catalyze further investment into high-impact enterprises. Patient, flexible, impact investments can enable organizations to innovate and scale solutions that might never otherwise achieve commercial viability. PRIs are a powerful tool for financing social change, but they are not the right tool for every funding opportunity. Families should be aware of the potential opportunity cost of PRIs; because PRIs are made with grantmaking dollars, families should carefully consider whether they are the tool best-suited for a given opportunity.

Family foundations are using program-related investments to fill market gaps and catalyze further investment into high-impact enterprises.

Building Capacity for Impact Investing

Families who want to move from inspiration to action, will need to build the right capacities inside or outside their foundations to develop and deploy an impact investing strategy. Below are some of the important considerations for capacity building when making impact investments out of a foundation's endowment as well as making impact investments alongside grantmaking dollars.

For Investments out of the Corpus of the Endowment

Four important components of capacity building for endowment impact investment strategies are:

1. Shared commitment among foundation trustees to developing an impact investment strategy,

2. A manager (or external advisor) committed to working with a family foundation to develop an impact investment strategy,

3. An asset management structure that allows for independent or tailored investments, and

4. An investment policy statement that directly addresses the impact investing strategy.

Building consensus and commitment among foundation trustees may be the most challenging step to developing an

*A capital stack consists of all the different forms of financing invested in a particular project. Depending on where in the stack an investment is made, the same project can be expected to yield different risk and return.

> **Building consensus and commitment among foundation trustees may be the most challenging step to developing an impact investment strategy.**

impact investment strategy. Families should identify a starting point of shared values and objectives, using shared language to articulate their motivations. This consensus does not have to be comprehensive, but rather just enough for foundation leaders to begin experimenting together. Many foundation trustees may be new to the principles and practices of impact investing; building their knowledge base is a good initial step to prepare for the iterative process of building an impact investment strategy.

The next step is finding investment managers and/or advisors that are committed to and capable of implementing an impact investment strategy. Families may discover that their existing advisor is up to the task; others may determine that they need a new (or additional) team. While some families may choose to dedicate a portion of their assets to be managed as a carve-out with an impact investing-specific manager, others build a mission-aligned investment strategy with the asset managers that manage the entire endowment. If impact investing becomes a large part of the foundation's activities or identity, the family may consider hiring one or more internal staff members to oversee the impact investing strategy across the portfolio. Whichever strategy a family chooses, hiring internal or external professionals with impact investing experience can be indispensable for deal flow, due-diligence, and impact measurement.

Foundation leadership may encounter challenges if their investment management structure does not allow for a tailored investment strategy. Certain funds-of-funds and pooled fund wealth management models can prevent a family from knowing what they own — let alone investing for mission alignment and activation — and can prohibit a family from investing independent of other clients. The Rockefeller Brothers Fund, for example, began to develop their impact investing strategy with an outsource chief investment office (OCIO) whose pooled fund structure prevented the RBF from investing independently of the firm's other clients. The RBF ultimately chose to move to a new OCIO that could treat the foundation as a separate account.[38]

The RBF worked with their new OCIO to develop an investment policy statement that directly addresses their impact investment objectives. The development of this policy came after the foundation had begun making impact investments. By taking meaningful but limited action first, before developing a formal policy, foundations can use the experiences they gain to clarify the motivations, goals, and tactics that can evolve into a more refined strategy over time. Trustees can work with their advisors and managers in an iterative process to enshrine the strategy in an investment policy statement.

For Program-Related Investments

Developing and implementing a PRI strategy requires the right team and the right tools:

1. *Portfolio management tool*
   Given the nature of PRIs, foundations will need to secure a portfolio management tool that can track the financial attributes of PRIs in addition to their programmatic elements, which may require additional technology or software.

2. *Legal counsel*
   Many foundations already have an in-house or retained legal counsel. The legal expertise required for grant-making and PRI making differ in several ways. Foundations developing a PRI program will want to secure legal counsel that has the capability to review PRI agreements.

3. *Accounting and cash management capabilities*
   The program staff of a foundation may not be accustomed to the particular accounting methods and timeline for PRIs. PRIs, by nature, are distributed

and then returned, often with interest or income on top of the principle investment. Program accounting methods are not typically set up to account for two-way cash flows. While grant capital is distributed at a set point in time, capital for PRIs can sometimes be called (i.e. requested) at any point after its been committed — and often on short notice. Family foundations that consider building a PRI portfolio from scratch will need to create some redundancy and flexibility in their accounting systems to handle the differences in PRI making and grant making.

4. *Shareholder and governance know-how* When a foundation makes a direct investment in a social enterprise, it becomes a shareholder of the company. Shareholder responsibilities entail new skills and expertise with which programmatic staff may not be familiar. A foundation may need to manage reputational risk in being a direct shareholder in various social ventures. The foundation may also be asked to sit on an investment committee of a fund, or provide board-level advice on the strategic direction of a portfolio company, a role that existing foundation staff may not be equipped to serve.

Key Takeaways

1. Foundations are already doing it, and it's working

A significant proportion of family foundations are making impact investments out of their endowments as well as PRIs. Between the year 2000 and the year 2010, the number of foundations engaged in PRIs doubled and the dollars invested tripled.[37] According to a recent survey, 41 percent of foundations are engaging in impact investing and an additional 6 percent are planning to do so in the future — both MRIs out of the endowment and PRIs out of the grantmaking dollars.[40] Part of that increase may be thanks to the reliable returns that PRIs generate: according to a 2007 FSG study, the overall repayment rate of PRI loans was 96 percent.[41] There is also a growing body of literature that indicates ESG and impact investments that aim to earn commercial financial return do not compromise on that return, and that in certain cases, they provide for more effective long-term risk mitigation as well as market outperformance.[42]

2. The right team is necessary

Creating and implementing a mission-aligned investment strategy requires a professional team that is dedicated to a foundation's, or family's, commitment to impact. That team must also have professional experience that will provide for informed, strategic decision-making processes in order to invest for impact while keeping the constraints and limitations of a family foundation's resources front of mind.

3. Start with what you are already doing

Making investments using foundation dollars that align with or advance the mission of the organization is a new frontier for many families. Those who have done it recommend starting from a place of expertise. If a foundation is in the practice of giving grants to affordable housing organizations, perhaps they should consider a loan to one of the organizations out of their grantmaking dollars as their first impact investment. Or if a foundation is already making real asset investments out of their endowment, they can consider a mission-aligned or activated investment in that same asset class. By starting from a position of familiarity, family foundations can slowly build a track record of mission-aligned investments without trying to do everything at once. Transitioning a family foundation's entire portfolio toward mission alignment and activation can, and usually does, take time. Starting with what you know is an easy and comfortable first step.

The foundations of the future can be 100 percent mission conscious in how they

The foundations of the future can be 100 percent mission conscious in how they deploy their capital.

deploy their capital: to avoid contradiction with their philanthropic vision, to align with their values, and to activate investments, which have a multiplier effect for their programmatic goals. Family members and trustees of foundations have a powerful opportunity to look across the entire portfolio of the foundation and pull each of the levers available to create the change they seek to make in the world.

APPENDIX A
Example Investments

CRA QUALIFIED INVESTMENT FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	**Process-Based**	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

The CRA Fund is a market-rate bond fund that invests in fixed income securities designed to positively impact communities across the United states. The CRA Fund incorporates a positive screening approach and is fossil-fuel free. It offers investors the ability to earmark investments to specific impact themes or geographies.[43] Community Capital Management (CCM) is the registered investment advisor to the CRA Qualified Investment Fund.

INVESTISSEMENT MONTREAL IV

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	Market-Rate
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	**Concessionary**
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	**Housing & Community Development**	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

In May of 2016, the McConnell Foundation invested $1 million into the loan fund Fonds Investissement Montréal IV. This PRI offered additional capital that enabled housing coops and nonprofit housing organizations to renovate and update affordable housing units without raising rent for residents. In Quebec, where this investment took place, housing nonprofit organizations built 32,000 housing units in order to provide safe, high-quality residence for low-income families or individuals with special needs in the 1980's. In 2016 — over 30 years since the project began — the buildings needed substantial repairs and updates to continue housing Quebec's population. The loan fund into which the McConnell foundation made this PRI supplied low-cost capital for the HNOs to renovate and repair these Quebec affordable housing units.

MAINSTREAM RENEWABLE POWER

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	**Sub-Saharan Africa**	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	People-Based	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	**Energy & Resource Efficiency**	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	USA & Canada	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Mainstream Renewable Power is a renewable power developer that has partnered with the private equity firm Actis to develop the Lekela Power platform. Lekela is a fund that invests in renewable power development throughout Africa. The Rockefeller Brothers Fund invested in Lekela through Mainstream Renewable Power in 2016. The fund seeks market-rates of financial return.

AFRICA HEALTH FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	**Sub-Saharan Africa**	Product-Based	Market-Rate
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	**Concessionary**
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	**Behavior-Based**	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	USA & Canada	ESG-Screened	
Cash	**Healthcare & Wellness**	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

The Bill and Melinda Gates Foundation made an equity PRI into the Africa Health Fund alongside other large institutions such as the International Finance Corporation (IFC) and African Development Bank. The private equity fund, in turn, makes equity investments in small and medium sized enterprises working to provide high-quality, low-cost, accessible healthcare to people living on the African subcontinent who otherwise would not have access to healthcare. At a point in time when most of the region's poor people rely on private[45], the Bill and Melinda Gates Foundation is making this equity PRI to stimulate private-sector innovation and build capacity to serve the growing need in this region of the world.

GREENSOIL BUILDING INNOVATION FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	**Process-Based**	
Real Assets	**Agriculture & Food**	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	**Energy & Resource Efficiency**	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

The J.W. McConnell Family Foundation invested in Greensoil Building Innovation Fund (GBIF). GBIF is a growth equity fund investing in companies that provide products, services, and technologies that make real estate and infrastructure more productive, efficient, and sustainable.[44] This investment helps advance the mission of the J.W. McConnell Family Foundation to address complex social, environmental, and economic challenges.

DAILYHUNT

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	**Product-Based**	**Market-Rate**
Fixed Income	Environmental Conservation	Middle East & North Africa	**People-Based**	Concessionary
Private Equity	Sustainable Consumer Products	Central & South America	Place-Based	Off-Market
Venture Capital	Housing & Community Development	**Asia & Oceania**	Process-Based	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	USA & Canada	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Media			

Omidyar Network invested alongside commercial co-investors in Dailyhunt (formerly Versé innovation). Dailyhunt is best known for its mobile application that provides reading material — both news and e-books — to India's non-English speaking population. Distributing news from more than 600 different sources and 1600 e-book publishers, Dailyhunt receives over three billion page views per month. Dailyhunt has provided reading material for a population of people in India, namely non-English speakers, that has previously been underserved.

ECOTRUST FOREST INVESTMENT FUND

ASSET CLASS	SECTOR	GEOGRAPHY	IMPACT STRATEGY	RETURN PROFILE
Public Equity	Education	Sub-Saharan Africa	Product-Based	**Market-Rate**
Fixed Income	**Environmental Conservation**	Middle East & North Africa	People-Based	**Concessionary**
Private Equity	Sustainable Consumer Products	Central & South America	**Place-Based**	Off-Market
Venture Capital	Housing & Community Development	Asia & Oceania	**Process-Based**	
Real Assets	Agriculture & Food	Eastern Europe & Russia	Behavior-Based	
Hedge Funds	Energy & Resource Efficiency	Western Europe	Model-Based	
Social Impact Bonds	Safety & Security	**USA & Canada**	ESG-Screened	
Cash	Healthcare & Wellness	Emerging Markets	SRI-Screened	
	Access to Finance	Developed Markets		
	Employment & Empowerment	Global		
	Base of Pyramid Services			
	Sustainable Infrastructure			
	Diversified			

Ecotrust Forests buys rainforest land in the Pacific Northwest and sustainably manages the land. Ecotrust sustainably harvests timber for regular income, works to retain and maximize carbon absorption, improves wildlife habitats, preserves clean water systems and recreation for surrounding communities. The fund now owns 30,000 acres with this approach. Several family foundations have made investments into Ecotrust Forest Investment fund, including the Russell Family Foundation and the David and Lucile Packard Foundation. Some have made catalytica investments that aim to earn a below-market rate of return, while others have invested for commercial returns.

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THE IMPACT

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