



The Annie E. Casey Foundation

# Mission Investing: A Tool for Regional Development



Mission Investing Forum  
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# Topics of Presentation

- Definitions
- Benefits of mission investing
- Field data and trends
- Mission investing in practice
- Resources



# ACCION Texas



- AECF focus on improving family economic success on San Antonio's West Side
  - Interest in creating/sustaining micro and small businesses
- ACCION Texas, an established loan fund that makes micro and small business loans



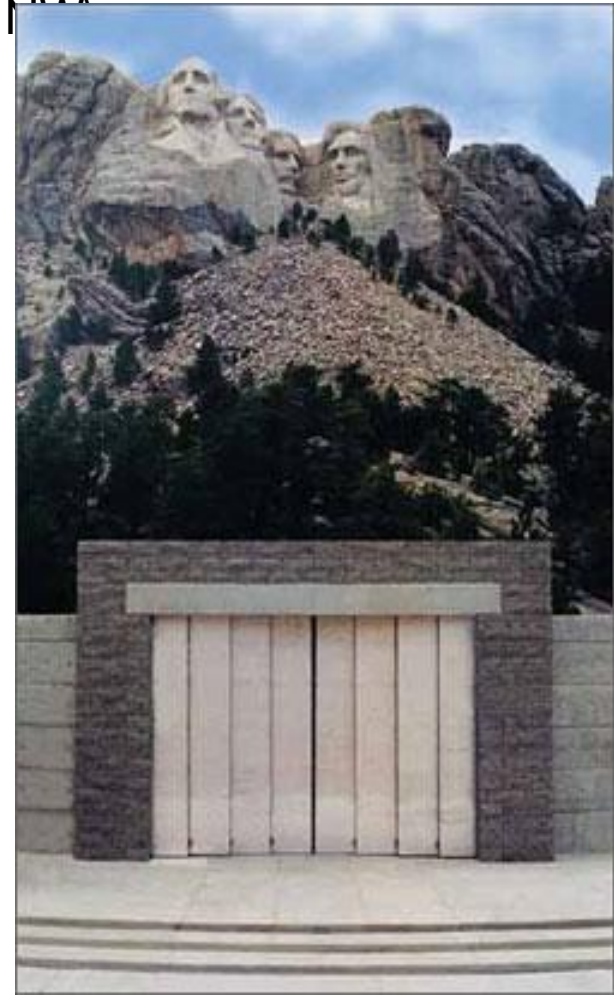
- AECF 5 year loan @ 3%
  - Targeted to AECF neighborhoods of interest
  - Grant support for staffing/operations
  - Financial and programmatic requirements
- Results
  - ✓ 60 loans made in target communities
  - ✓ 69% to LMI borrowers
  - ✓ 95% to minority borrowers

# Invest Northwest

- \$15M private equity fund
  - Established by Northwest Area Foundation
  - Eight state target region from Minnesota to Pacific Northwest
- Investments in portfolio companies will
  - Create, save and/or maintain jobs
  - Provide employee benefits
  - Pay at least 150% to 200% of the minimum wage
- To date: 12 companies, 111 net new jobs



- 10% job growth since investment
- Lowest wage earners make 52% more per hour than regional peers
- 100% offer healthcare and retirement benefits



# Why Mission Investing?



# Mission Investing Motivation



- Scale of needs outstrips grant resources
- Financing needs often outstrips grant resources
- Alignment concerns: “the other 95%”
- Responding to market conditions
  - Fewer dollars for grants in down markets
  - Pressure to grant with up markets or endowment
- Availability of appropriate capital for nonprofits and other social enterprises
- Leverage of vast government and capital markets assets

# Conventional Philanthropic Investing Continuum

**Fund  
Grants from  
Earnings  
~ 5% of assets**

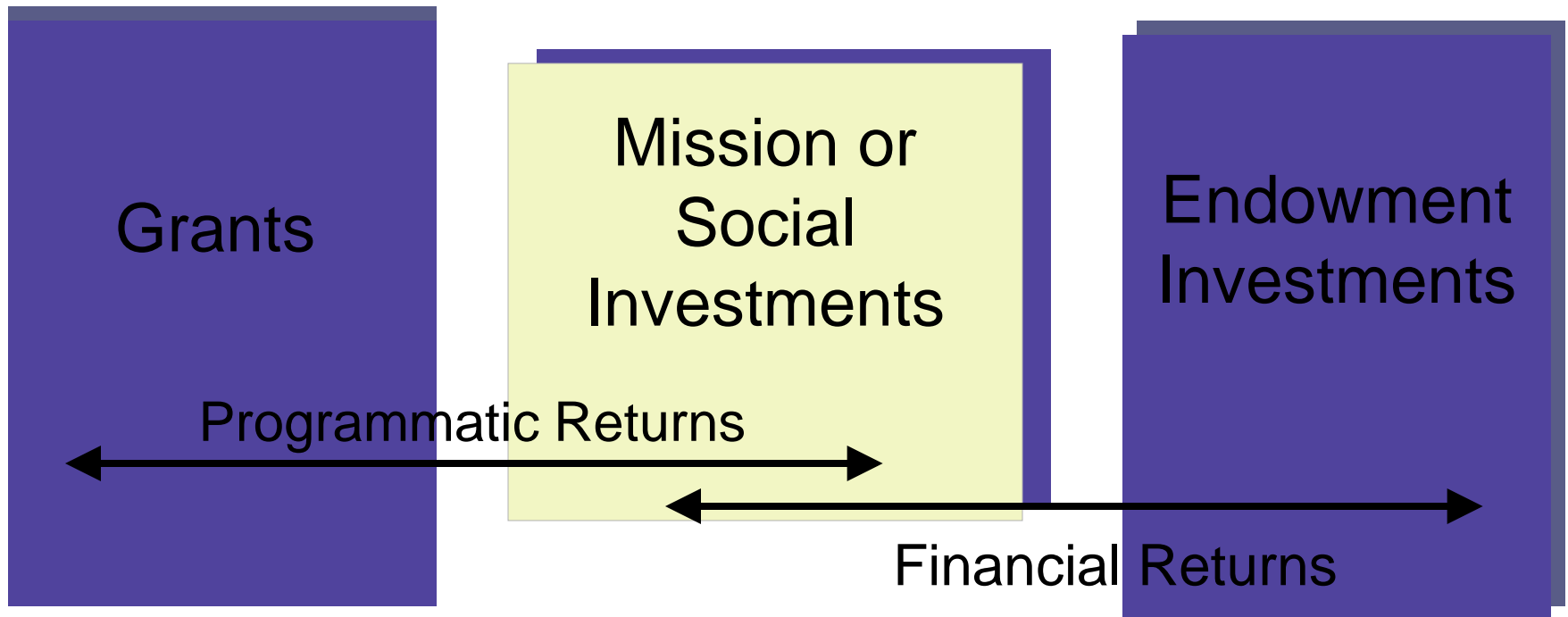
**Invest  
Endowment  
Assets  
95% of assets**



***Maximize social return  
w/ grants funded by  
at least 5% of assets  
per year***

***Maximize financial return  
to fund annual grant  
payout of at least 5% of  
assets while preserving  
endowment***

# Foundation Investments



# Defining Mission Investments



# Social Investing Definitions

## Social Investing

Financial services industry defines as investing that incorporates social or environmental criteria.

### Screening

Avoiding generally traded companies on perceived social harm--or selecting on perceived benefit

### Shareholder Activism

Voting proxies and engaging management of generally traded companies to change corporate behavior

### Proactive Investing

Selecting generally privately held investments in any asset class for expected social as well as financial return. **Includes most foundation mission investing (PRI/MRI)**

# Mission Investing Definitions

## Mission Investing

Foundation ***proactive*** financial investments made with the intention of (1) furthering a foundation's mission and (2) recovering the principal invested or earning financial return.<sup>1</sup>

### Below Market-Rate

Below risk-adjusted expected return for the asset class.

### Market-Rate

At or above risk-adjusted expected return for the asset class.

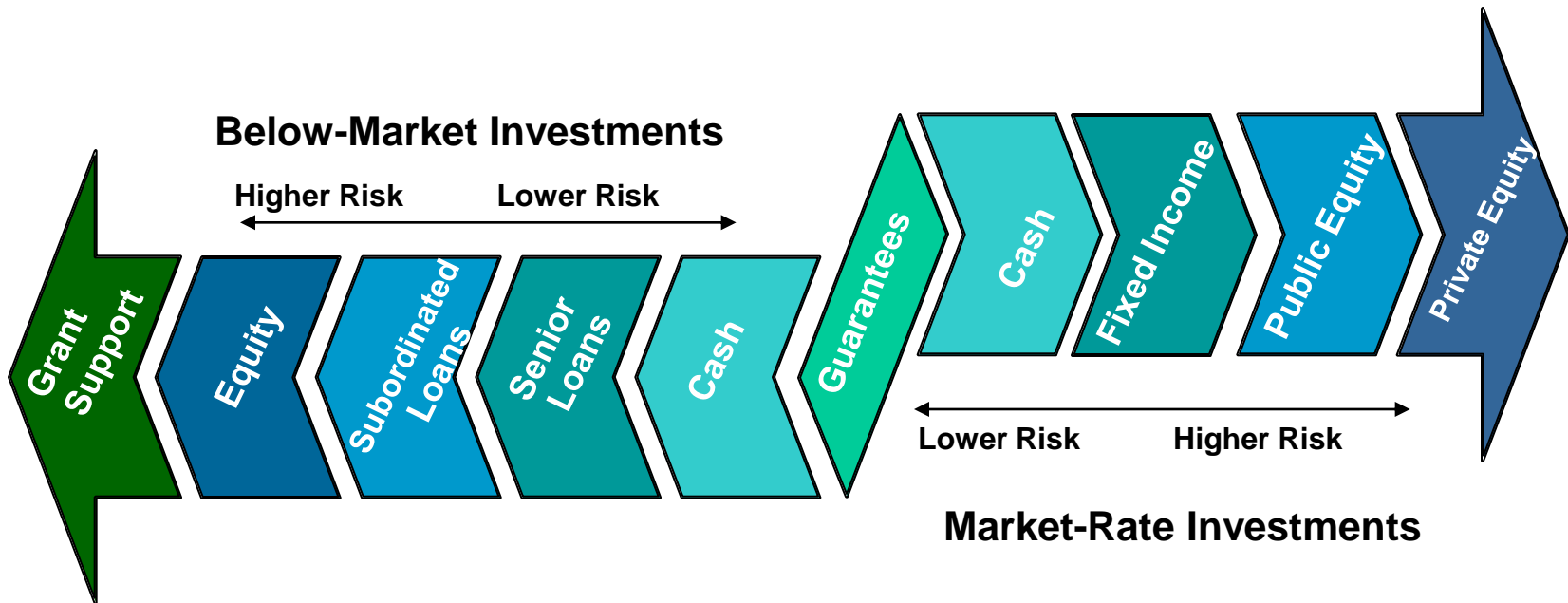
### Program-Related Investment (PRI)

IRS regulatory term for investments in any asset class by private foundations made for charitable purpose with no primary objective of return, which IRS allows counting in 5% distribution<sup>2</sup> and excluding from jeopardizing investment triggers.

### Mission-Related Investment (MRI)

Not a regulatory term. Investment in any asset class by any foundation with Double or Triple Bottom Lines of financial plus social and/or environmental return related to the mission of the organization.

# Social Investment Continuum Across Traditional Asset Classes



Source: F.B. Heron Foundation Mission-Related Investing Continuum

# Mission Investing Motivation

<b>Stakeholder</b>	<b>Strategic Benefits</b>
Foundation	Impact, recyclable, flexible, scale, leverage, payout, partnership, learning, alignment, feasibility, credibility
Investee	Proof of concept, credibility, managerial discipline, scale and sustainability, capacity/leverage, partnership
Society/ Market	Market development /innovation catalyst, policy catalyst, efficient use of charitable resources, accountability in social sector, sustainable organizations

# The Downside



- Can be complex and time consuming
- Requires programmatic and financial skills
- Legal fees and other transaction costs
- Negotiations and structuring potentially adversarial
- Social impact difficult to measure/quantify
- Long-term reporting and monitoring

# Other Barriers

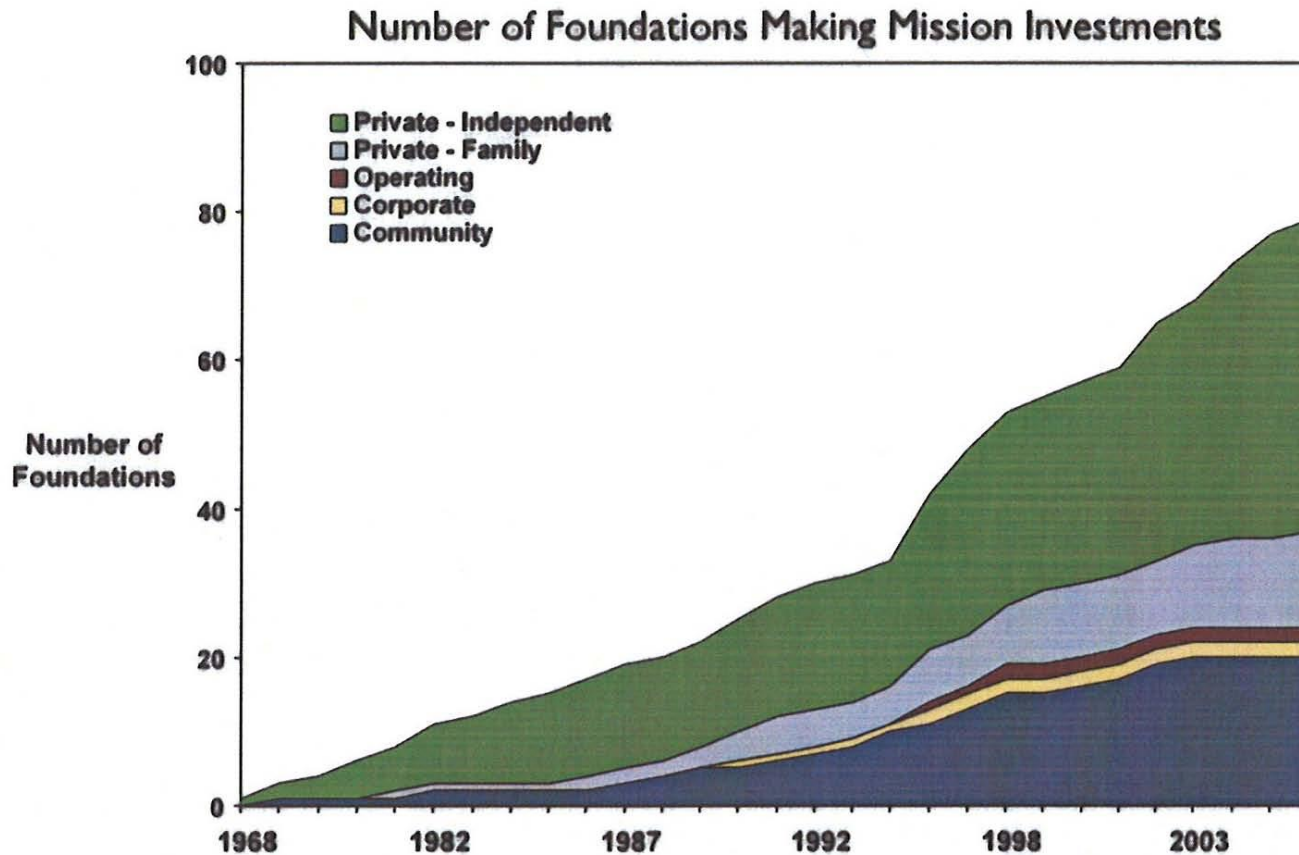
- Trustee resistance
- Advisor resistance
- Operational concerns
- Grantmaking framework
- Lack of investment product
- Return expectations



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# Mission Investing Field Data and Trends

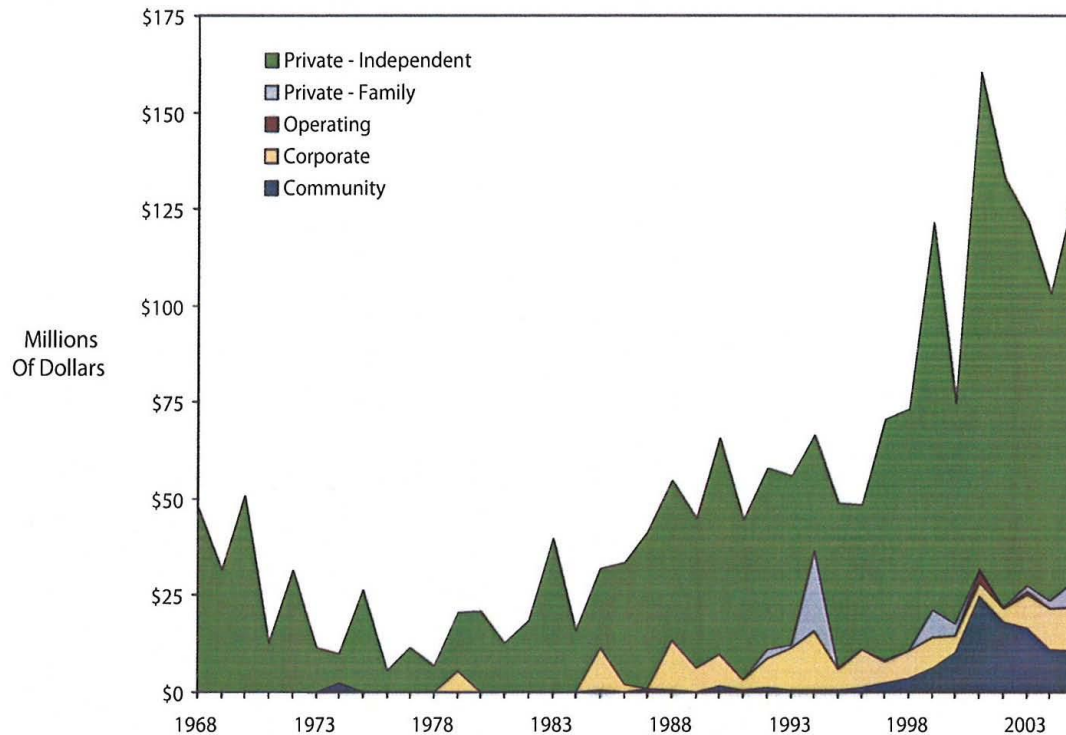
# Small Number of Foundations Are Making Social Investments



Notes: The first year of mission investing was not available for 13 of the 92 foundations studied and therefore they are not included in this analysis.

# Annual SI Volume Growing But Still <\$200 Million

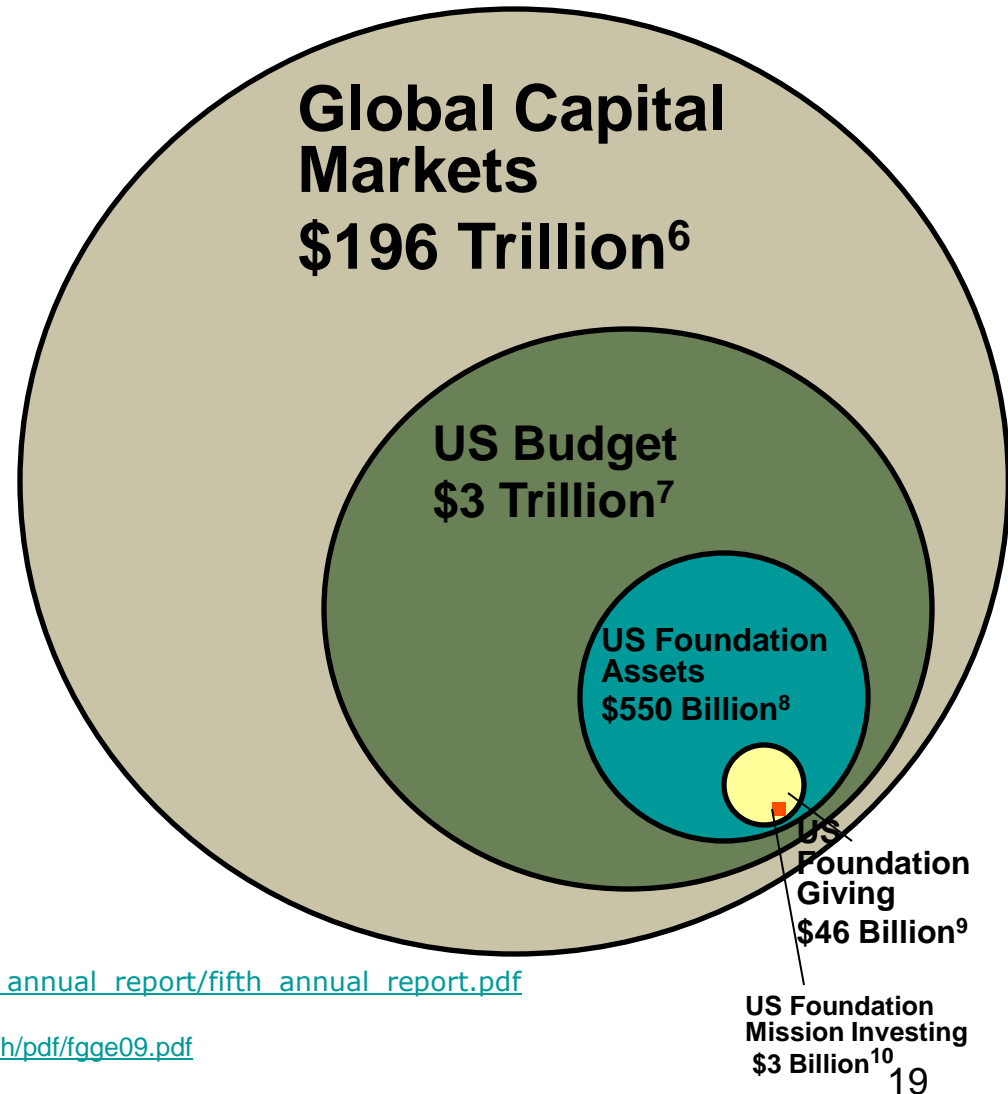
Dollar Amount of New, Committed Mission Investments Per Year  
By Foundation Type in Constant 2005 Dollars



Notes: In constant 2005 dollars based on annual average CPI, all urban consumers as reported by the U.S. Department of Labor. To avoid major swings due to periodic investments, one foundation's infrequent and large equity investments are not included in this trend analysis. The first year of mission investing or the foundation size was not available for \$120 million of investments and therefore is not included in this analysis.

# Sidebar: Benchmarking Foundation Resources to US Government and Capital Markets

“One of the most effective ways to alleviate, and sometimes even to eliminate, social suffering is therefore to supplement, leverage, or alter the incentives of conventional capital markets. Foundations can achieve this not only by making grants, but also by using their endowments to craft market-based solutions to social problems.”<sup>11</sup>



<sup>6</sup> Source: [www.mckinsey.com/mgi/reports/pdfs/fifth\\_annual\\_report/fifth\\_annual\\_report.pdf](http://www.mckinsey.com/mgi/reports/pdfs/fifth_annual_report/fifth_annual_report.pdf)

<sup>7</sup> Source: [www.gpoaccess.gov/usbudget/](http://www.gpoaccess.gov/usbudget/)

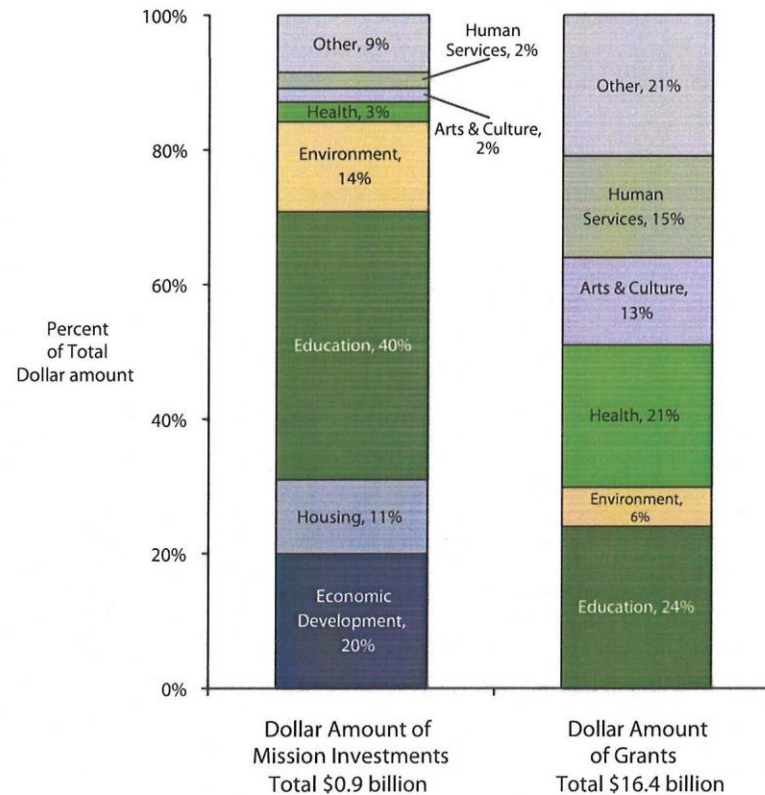
<sup>8</sup> Source: [www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf](http://www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf)

<sup>10</sup> Source: [Estimate.GPSCapitalPartners.LLC](http://Estimate.GPSCapitalPartners.LLC)

<sup>11</sup> Source: [www.ssireview.org/images/articles/2007FA\\_feature\\_kramer\\_cooch.pdf](http://www.ssireview.org/images/articles/2007FA_feature_kramer_cooch.pdf)

# SI Program/Issue Areas

Comparison of Issue Areas Addressed by Mission Investments (2001-2005) Versus Grants (2005)



Note: 2005 grant data for all foundations is from Foundation Center's Foundation Giving Trends (December 2006) based on all grants of \$10,000 or more awarded by 1,154 of the largest foundations; grant data does not have Economic Development or Housing categories.

# AECF Approach and Philosophy

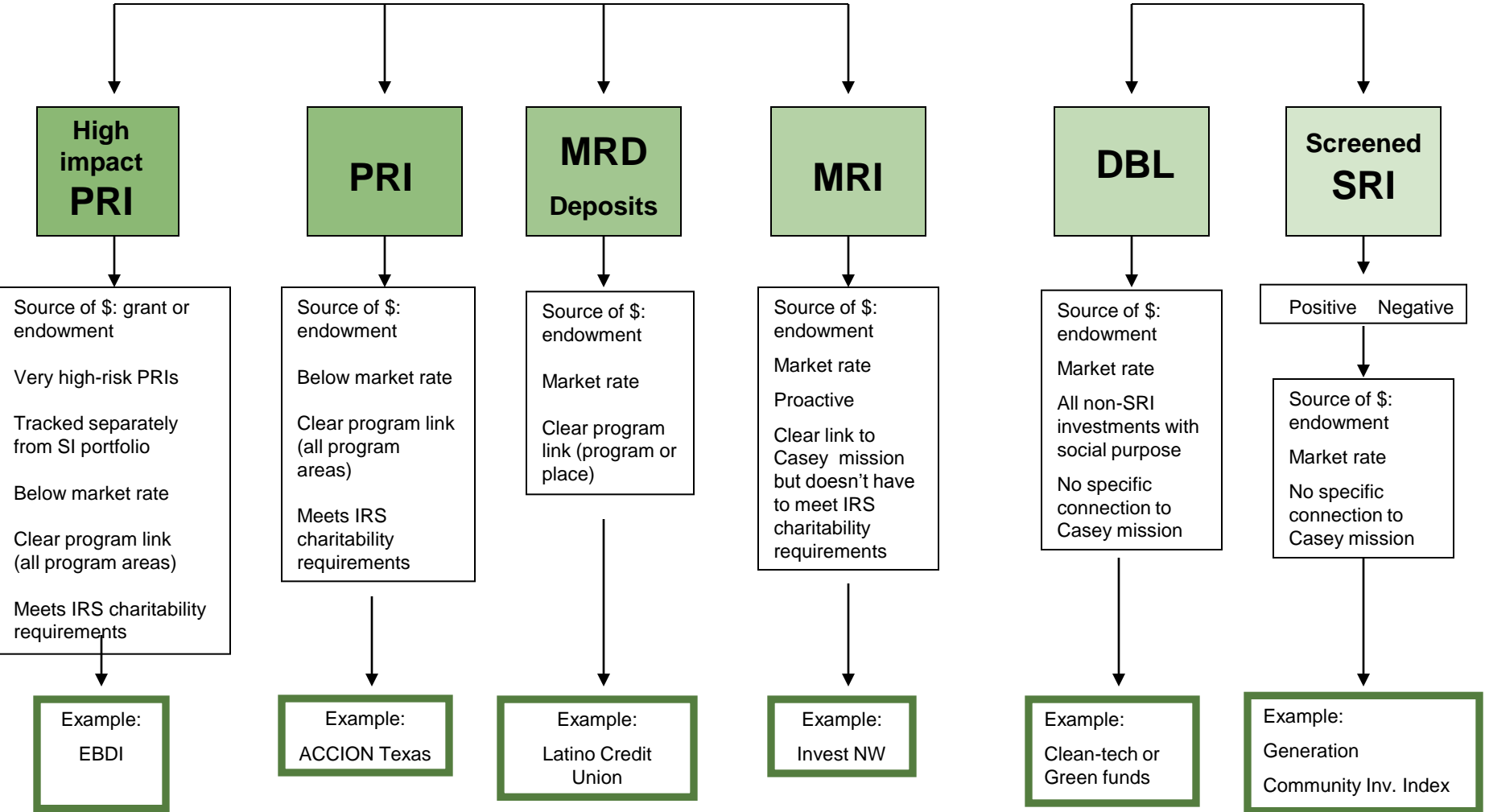


- Social investments complement grantmaking and provide an additional philanthropic tools
  - Seek double bottom line—financial and social return
  - Seek to fill a financing gap
- \$125 million allocation of endowment
  - Different risk profile from other foundations
  - Place based and thematic investments
- Flexible terms but always invest through financial intermediaries
- Leverage/co-investment requirement
  - Influence other investors and share risk
- Systems in place to track financial and social returns

# AECF SOCIAL INVESTMENT TAXONOMY

## MISSION INVESTMENT PORTFOLIO

## POSITIVE VALUES-DRIVEN



**High impact PRI**

**PRI**

**MRD Deposits**

**MRI**

**DBL**

**Screened SRI**

Source of \$: grant or endowment  
Very high-risk PRIs  
Tracked separately from SI portfolio  
Below market rate  
Clear program link (all program areas)  
Meets IRS charity requirements

Source of \$: endowment  
Below market rate  
Clear program link (all program areas)  
Meets IRS charity requirements

Source of \$: endowment  
Market rate  
Clear program link (program or place)

Source of \$: endowment  
Market rate  
Proactive  
Clear link to Casey mission but doesn't have to meet IRS charity requirements

Source of \$: endowment  
Market rate  
All non-SRI investments with social purpose  
No specific connection to Casey mission

Positive Negative  
Source of \$: endowment  
Market rate  
No specific connection to Casey mission

Example:  
EBDI

Example:  
ACCION Texas

Example:  
Latino Credit Union

Example:  
Invest NW

Example:  
Clean-tech or Green funds

Example:  
Generation Community Inv. Index

# Mission Investing Lessons



- Every investor is different
  - Definition of mission-related
  - Entry point
- Education and capacity building for staff, partners
- Link to program/mission critical
- Not every idea/organization appropriate for investment
- Deals can take time to develop
  - Grant support sometimes necessary to do deal
- Leverage takes time and money
- Ongoing management needed to maintain relationship (financial and programmatic)

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# Getting Started

# Mission Investing Process

- Articulate Mission and Values
- Create Program/Impact Themes
- Define Desired Impact
- Develop Impact Investing Policy
- Generate Deal Flow
- Analyze Deals
- Evaluate Impact

Source: *Solutions for Impact Investors: From Strategy to Implementation*, Rockefeller Philanthropy Advisors

# Mission Investing Policy Decisions



- Carve out or overlay
- Across impact investing spectrum
- Across asset classes
- Return expectations (financial and social)
- Ongoing program or opportunistic
- Direct investments or through intermediaries
- New product creation
- Sole investor or with co-investors
- In-house expertise or contracted

# Generating Deal Flow



- Examine current program strategies
- Consider current grantees
- Access deal databases
- Ask you investment advisors (be specific about program interests)
- Contact foundations with similar program interests
- Develop relationships with banks/other capital sources
- Create investment vehicles

# Collaborations and Co-investment



- Other foundations
  - Assume role of lead investor to attract other foundation investors
  - Piggyback on other foundations that are developing own deals as lead investor
- Public sector (often provides grant subsidy)
  - Usually brought to the deal by the investee
- Individuals/angel investors
  - Typically looking for turnkey investments
- Banks (often have CRA requirements)
  - Often looking for credit enhancement
  - PRIs can provide lower blended cost of capital

# Mission Investing Resources



- More for Mission Campaign: [www.moreformission.org](http://www.moreformission.org)



- PRI Makers Network: [www.primakers.net](http://www.primakers.net)

- Global Impact Investing Network (GIIN): [www.thegiin.org](http://www.thegiin.org)



- Foundation Center: [www.fdncenter.org](http://www.fdncenter.org) (PRI Directory)

- Grantcraft: [www.grantcraft.org](http://www.grantcraft.org) (PRI grantcraft guide)



- Social Investment Forum: [www.socialinvest.org](http://www.socialinvest.org)

- Investor's Circle: [www.investorscircle.net](http://www.investorscircle.net)



- Council on Foundations: [www.cof.org](http://www.cof.org) (Resources for Grantmakers)

# Mission Investing Resources



- Toniic: [www.toniic.com](http://www.toniic.com) (investor club for early stage funding for global social enterprises)
- Cambridge Associates Mission Investing Group: [www.cambridgeassociates.com](http://www.cambridgeassociates.com)
- FSG Social Impact Advisors: [www.fsg-impact.org](http://www.fsg-impact.org) (mission investing study)
- Monitor Institute: [www.monitorinstitute.com](http://www.monitorinstitute.com) (Investing for Social & Environmental Impact report: [www.qk18ad7x79.web.aplus.net](http://www.qk18ad7x79.web.aplus.net))
- Opportunity Finance Network: [www.opportunityfinance.net](http://www.opportunityfinance.net) (CARS rating system)
- Rockefeller Philanthropy Advisors: [www.rockpa.org](http://www.rockpa.org) (trustee handbook)
- Foundations with SI experience