

Key Facts on Mission Investing

by **Steven Lawrence and Reina Mukai** (www.foundationcenter.org)

This paper reprinted with permission from the Foundation Center in New York City gives a good overview of mission investing (program-related investment) in the US. It reports on a survey of around 1200 foundations with '\$215B in assets; of which '168 foundations with \$119.2B in assets.... engage in some form of mission investing'.

The Charity Commission supports programme related investment providing guidance. Others in the sector feel that this should be an important element of a charities investment strategy. See the article by Danyal Sattar on Esmée Fairbairn's approach to social investment as part of its approach to programme related investment.

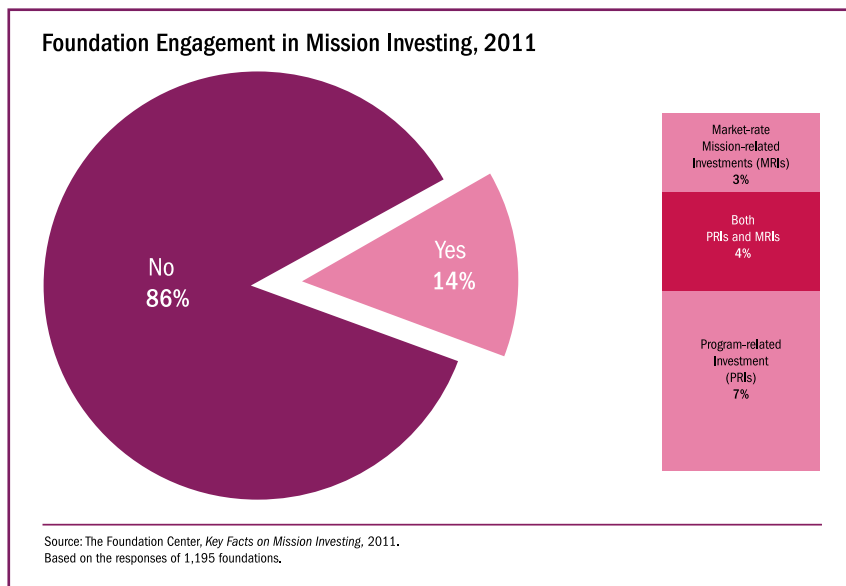
U.S. foundations made grants totaling an estimated \$46 billion in 2010 but held assets totaling more than \$600 billion. To realize the full philanthropic potential of their resources, some grantmakers have suggested that foundations should invest their assets in ways that are consistent with and support their charitable missions. The impact of the recent economic downturn on foundation giving and the budgets of nonprofit organizations has only served to strengthen these calls.

Yet 'mission investing' is not new. For more than forty years, a small number of foundations have been making program-related investments (PRIs). These investments, which often take the form of loans, loan guarantees, or equity investments, are derived from a foundation's assets but count toward its charitable distribution requirement. Generally, these investments yield below-market-rate returns for the foundation.¹

More recently, there has been an increased focus on marketrate mission-related investments (MRIs). These investments may broadly support foundations' programmatic goals but do not count toward a foundation's charitable distribution requirements. However, while the Foundation Center has tracked foundations' use of PRIs for more than 15 years, this report is the first to collect aggregate information on the extent to which foundations are making use of MRIs.

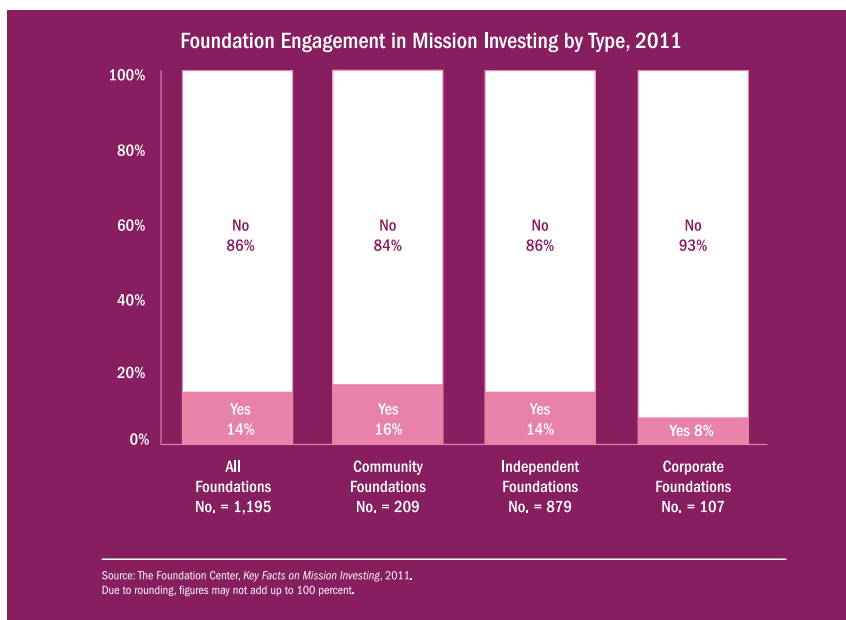
To benchmark the level of foundation engagement in mission investing and the types of investment vehicles being used, the Foundation Center included a series of questions on the topic in its January 2011

Foundation Giving Forecast Survey. Close to 1,200 independent, corporate, and community foundations with approximately \$215 billion in assets responded. Of these, 168 foundations with \$119.2 billion in assets indicated that they currently engage in some form of mission investing. Following are key findings from the survey.



How common and formal is mission investing among foundations?

- About one-in-seven surveyed respondents (14.1 percent) currently engage in mission investing, including programrelated investments (PRIs) and/or market-rate missionrelated investments (MRIs).
- Among those foundations that engage in mission investing, half hold PRIs, 28 percent invest in both PRIs and MRIs, and less than a quarter (22 percent) hold only MRIs.
- Foundation involvement in mission investing varies by foundation type, with community and independent foundations being more likely to hold mission investments than corporate foundations.
- By foundation size, larger foundations are far more likely to hold mission investments. About one-third (32 percent) of respondents that reported total giving of \$10 million or more indicated that they hold mission investments, compared to 16 percent for those foundations that had total giving between \$1 million and \$10 million and 7 percent for those foundations that awarded less than \$1 million in giving. This finding may reflect in part the specific expertise required to make PRIs, which smaller foundations may not have the time or resources to access. Given time and resource constraints, smaller foundations may also be less aware of and/or likely to seek out opportunities for putting their assets into market-rate mission-related investments.
- Among foundations that hold mission investments, less than half (46 percent) have a formal investing strategy and/or policy statement in place.



Market-rate Mission-related Investments

The following section focuses exclusively on survey responses from 82 foundations that make market-rate mission-related investments (MRIs)—nearly half of respondents that reported any mission investments. MRIs are defined as investments that broadly support foundations’ missions and programmatic goals while seeking market-rate returns.

What share of foundation assets are held as MRIs?

- The share of foundation assets held as MRIs varies considerably. Just over one-quarter of the 82 foundations (26 percent) have chosen to commit more than 50 percent of their assets to MRIs, although a majority of these foundations had less than \$25 million in total assets. But most foundations reporting MRIs

are taking a more conservative approach. About half of these foundations hold 5 percent or less of their assets as MRIs, with one-fifth of respondents holding less than 1 percent.

- Among the asset classes of MRIs held by surveyed foundations, the largest shares were in fixed income, public equity, and/or cash equivalents.

How long have foundations been making MRIs?

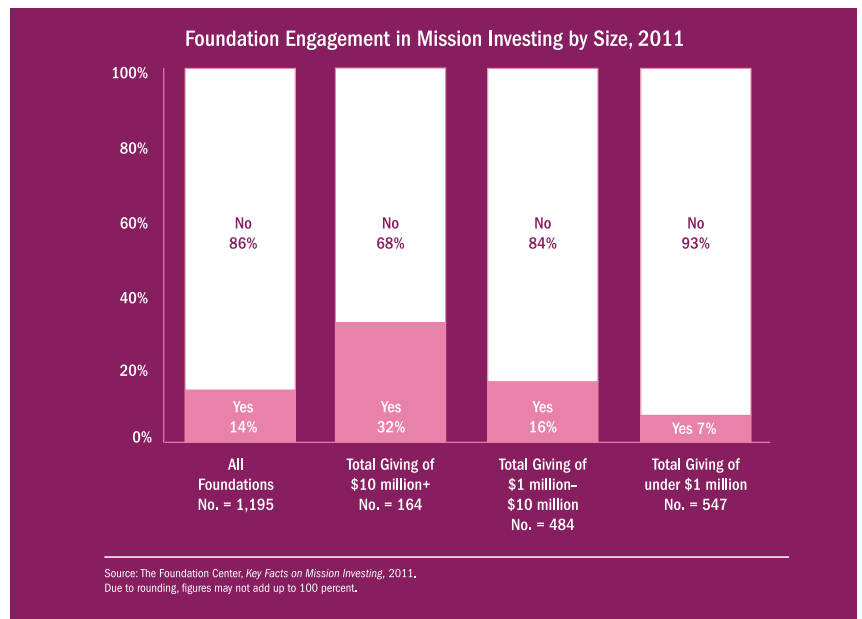
- The majority of foundations have been making MRIs for five years or less, with just over half of these foundations starting within the last two years. Conversely, roughly one out of four foundations have been making MRIs for more than 10 years. Of these, 9 percent indicated that they have been doing so for over 20 years.
- Despite speculation that the economic crisis—and its impact on foundation giving—might encourage more foundations to consider making greater mission-related use of their assets through MRIs, it appears to have had a minimal impact to date in this arena. Only two of the 23 foundation respondents that started making MRIs within the last two years did so in response to the impact of the economic crisis on their assets. Nonetheless, the persistent economic malaise may encourage at least a few additional funders to consider MRIs.

Mission Investing: What's in a Name?

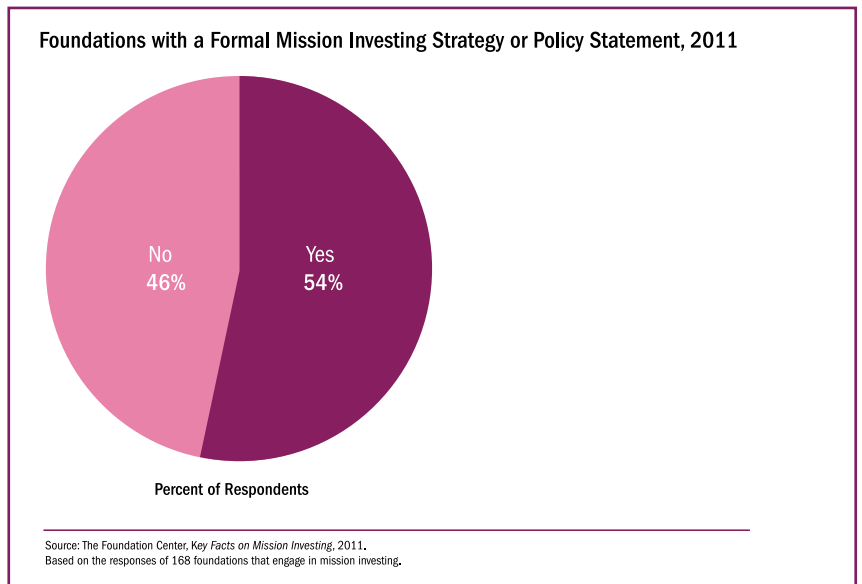
Using foundation assets to provide a public benefit has been called many things over the years: mission and mission-related investing; social, socially responsible, and responsible investing; environmental, social, and governance investing; and impact investing. There are differences in terminology and methodology, but the goal remains the same: to use foundation assets—as distinct from grants budgets—to achieve a public benefit while obtaining market- and below-market-rate returns in different asset classes remains the same.

Investing As If The Future Mattered

Stephen Viederman, former president of the Jessie Smith Noyes Foundation, has launched a crusade to create harmony between the 'purpose' of a foundation and its investment practices. In a special report for the



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Capital Institute, *Investing As If The Future Mattered*, Mr. Viederman outlined several of his key arguments:

- A foundation's responsible investing strategy should be guided by its broader purpose to benefit the public.
- Fiduciaries have an obligation to seek competitive returns that also complement the foundation's purpose and/or mission.
- It is a myth that social investing equates to financial underperformance.
- Philanthropy's 'Bermuda Triangle'—composed of the board and investment committee, investment office, and foundation consultants—often has little or no knowledge of responsible investment practice and tends to ignore the topic entirely or reinforce negative biases against it.

- Using vocabulary that everyone can understand will help to open up discussion about changing investment strategies. To read the full report, visit www.capitalinstitute.org/forum/braintrust/stephen-viederman.

About More for Mission

More for Mission: The Campaign for Mission Investing seeks to challenge foundations—private, community, and corporate—to increase the % of their endowments allocated to mission investments and to have them help other foundations to do the same. The approach is to align foundation investments with their mission while maintaining longterm targeted financial returns. The Campaign aims to help foundations build capacity so that they have the tools to be able to better align their investments with the mission of the organization.

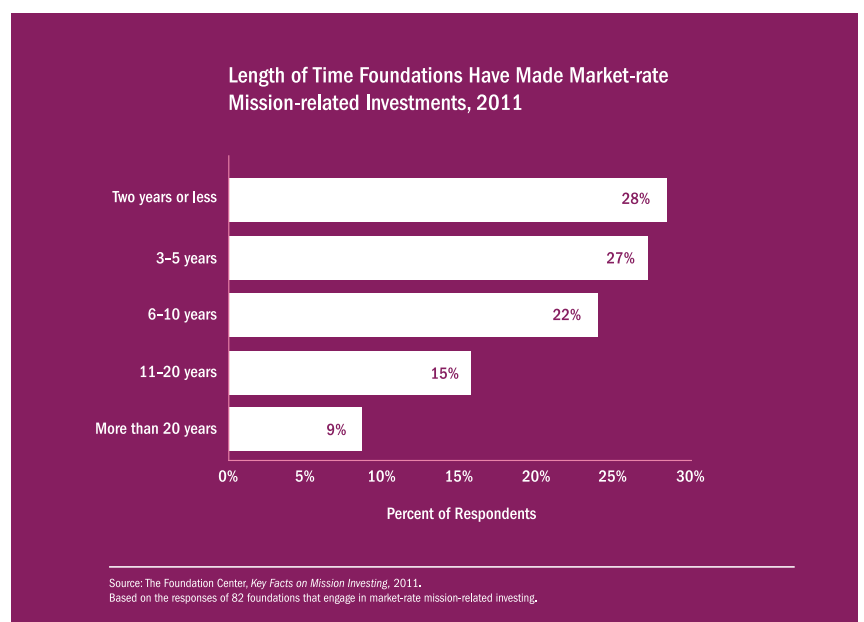
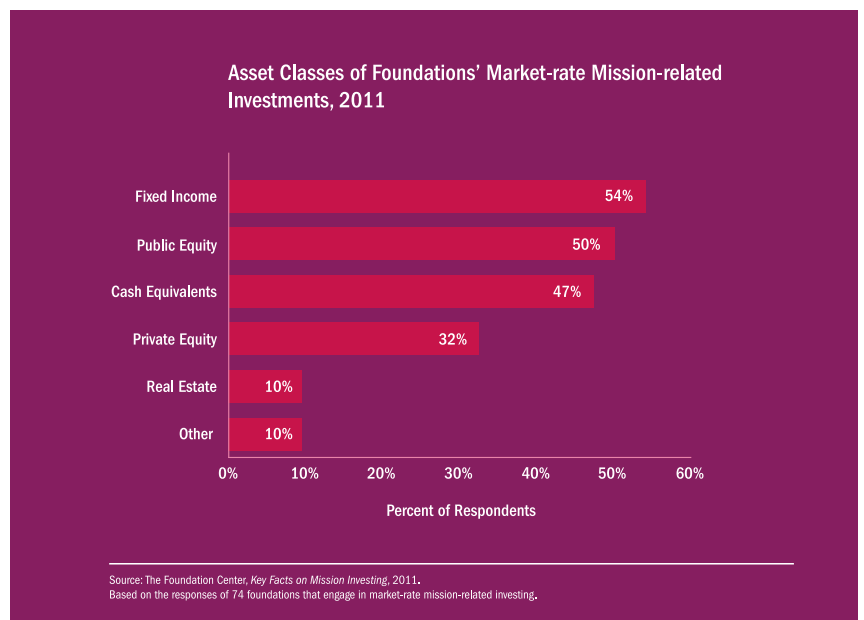
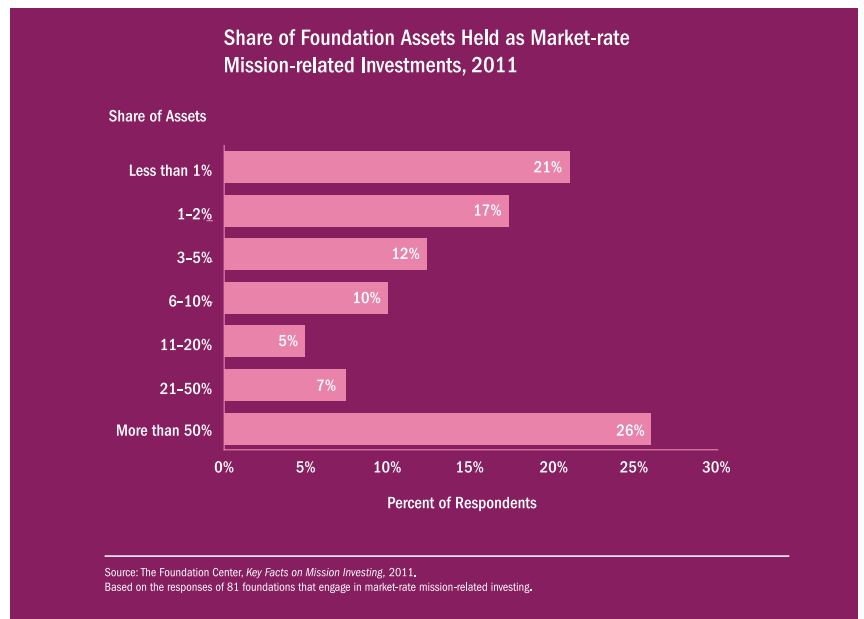
The Campaign includes a Leaders Circle that is comprised of 63 foundations and a Members Circle of 33 foundations, cumulatively representing approximately \$39 billion in total assets. The More for Mission network actively promotes the campaign and provides a variety of resources to support its growth. For more information on mission investing or More for Mission, visit www.moreformission.org.

About the PRI Makers Network

PRI Makers Network helps foundations expand their use of programrelated investments to achieve their philanthropic goals. Through their participation in the PRI Makers Network, members develop the skills, tools and connections they need to build successful social investment programs. To learn more visit www.primakers.net.

About the Foundation Center

Established in 1956 and today supported by close to 550 foundations, the Foundation Center is the leading source of information about philanthropy worldwide. Through data, analysis, and training, it connects people who want to change the world to the resources they need to succeed. The Center maintains the most comprehensive database on U.S. and, increasingly, global grantmakers and their grants — a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level. Thousands of people visit the Center’s web site each day and are served in its five regional library/



learning centers and its network of more than 450 funding information centers located in public libraries, community foundations, and educational institutions nationwide and around the world.

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Source for all data: The Foundation Center

For more information about this report, contact communications@foundationcenter.org

¹ For the latest statistics on foundations' program-related investments, see foundationcenter.org/gainknowledge/research/pdf/pri_2010.pdf. Foundations may also make 'recoverable grants,' which require repayment but are made from a foundation's grants budget. These investments are reported as grants, rather than PRIs, on the 990-PF return that foundations file annually.

Additional Resources

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