Navigating the Territory

A Guide to Impact Investing for Donors

The Philanthropic Initiative

Act boldly. Give wisely.

The Philanthropic Initiative

The Philanthropic Initiative (TPI) is a nonprofit philanthropic consulting practice that helps companies, foundations, families, and individuals find innovative ways to maximize the impact of their giving. Working around the globe, we partner with clients to create, implement, and evaluate customized philanthropic strategies. We are committed to helping clients utilize all of their resources (financial, intellectual, human, and social) for social change, including non-traditional approaches such as impact investing. In partnership with your financial and wealth advisors, we can help you:

- Understand the field of impact investing and consider how it might support your goals
- Scan the environment and assess the potential market, gaps and opportunities for impact
- Define strategies, policies and capabilities for implementation
- Identify and analyze emerging deals and opportunities
- Track the impact of your investments

TPI is also committed to actively promoting and advancing strategic philanthropy. We conduct cutting-edge research and train individuals, organizations, and advisors in best practices. Our promotional work informs our advising work – to the benefit of our clients and the global philanthropic community.

TPI is a distinct operating unit of the Boston Foundation.

Overview

Our intent in this publication is to offer a straightforward navigation guide to the burgeoning field of impact investing. Many philanthropists and foundations are intrigued by the possibility of magnifying their impact on the issues that they care deeply about through deploying more of their financial resources in market-based approaches. However, they don't know how to get started or who to turn to for help and education. The field is young, the terminology is confusing, and the resources available to help them engage are only now emerging. With this guide, we hope that you will develop a better understanding of the landscape and identify different ways to learn more and take positive steps forward.

We encourage you to let your passions lead the way, but then to be thoughtful, intentional and prudent about what you want and can accomplish with your resources. We encourage you to work in partnership with other like-minded donors, investors and advisors to equip yourself with the skills to do this work well and to share experiences. Together, we will seek to realize the promise of impact investing: to use the power of the market to address the critical issues of our times.

Introduction

Can your philanthropic capital be aligned with your grantmaking?

Can your philanthropy funds be recycled over and over?

Can your investment portfolio do good while also providing a healthy financial return?

Can your favorite "social benefit" organizations be financially sustainable after your support ends?

This is the promise made by the field of "impact investing." But do you really have that choice? And if so, how do you put it into practice? Where do you begin? Who do you talk to? What resources should you use? What could you invest in? In short, what is the reality of actually doing impact investing on the ground today?

These are the fundamental questions that drove us to write this guide.

The target audiences for this guide are philanthropically minded individuals, families and foundations who are intrigued with the opportunities presented through impact investing, but who don't quite know how to get started. It is for people who are passionate and pragmatic about tackling tough problems and who are vigilantly looking for ways to magnify their impact and invest more capital in the issues and communities they care about. These are the type of people that The Philanthropic Initiative (TPI) works with through our advisory services and peer networks.

This is a basic guide for navigating the territory, developing your goals and finding the partners and resources that can help you take action. It is not a technical guide to help you develop an investment policy, construct a portfolio, vet deals and funds, negotiate terms or monitor a fund. However, through TPI's network of expert impact investing resources, we would be happy to help you take those important next steps too. [1]

The bottom line is that you can become an impact investor today. You can make a single investment, a portfolio of investments or you can develop an integrated strategy for all your financial resources. You can align your financial assets with your social goals, and in so doing, help for-profit and non-profit social benefit organizations become stronger and more sustainable. It will take thinking in new ways, building new capacities and forging new types of partnerships.

Yet, despite all the hype – and there is plenty – it is still tricky to navigate through the rhetoric and confidently make impact investments that meet your goals. The language is confusing; there is not a deep track record; there are not enough experienced advisors, intermediaries or "investment ready" opportunities; minimum investment requirements are often prohibitively high; and frameworks for analyzing these investment opportunities and measuring their social impact are imperfect. In many sectors and geographies, it is not possible to find impact investing deals and so you may need to help create them.

But if you want to join a group of pioneers who are tackling these challenges and strengthen the field of impact investing, your passions, ideas and actions can help part the way! The opportunity to both bring new tools and dramatically expand the pool of capital directed to positive social change is enormously exciting for all of us who care about making a difference.

[1] Please consult legal and financial counsel before making any investments. This guide is intended to serve as a very simple overview, and should not replace the advice of specialized professionals.

The Landscape

Definitions first, please. We like the following definition for an impact investment: **Any type of investment intended and structured to generate both a measurable social return (positive social, economic and/or environmental change) and a financial return.** In simple terms, it is a "double or triple bottom-line" approach to investment.

TERMINOLOGY

The alphabet soup of terms used over the last decade to describe concepts similar to impact investing can make your head spin. To make sure we are all talking about the same thing, here are definitions of some commonly used alternative terms.

MISSION INVESTING – The most popular term before the impact investing nomenclature was coined. For many people, it means exactly the same thing. For others, it denotes the subset of market-rate (vs. below market rate) investments that support the mission of a foundation by generating a positive social or environmental impact.

PROGRAM RELATED INVESTING – A term defined by the IRS tax code for private foundations that make below-market rate investments with a targeted program objective. Qualifying PRIs are eligible to count against the 5% payout that private foundations are required to make each year to retain their tax-exempt status.

SOCIALLY RESPONSIBLE or SUSTAINABLE AND RESPONSIBLE INVESTING (SRI) –An investment discipline that considers environmental, social (including labor practices) and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. According to the Forum for Sustainable and Responsible Investing, more than one out of every nine dollars under professional management in the United States – $3.74 trillion or more – is invested according to SRI strategies. Many of these portfolios are "screened" against specific criteria, while others are constructed with specific goals in mind.

SUSTAINABLE INVESTING – An investment strategy focused on companies and organizations that are evolving their business models to address sustainability issues and create meaningful environmental and social outcomes. It is a type of impact investing aimed at the growing number of companies who are seeking a competitive advantage in sustainability

SOCIAL ENTERPRISE – These include both for-profit and non-profit organizations that use market-based (business) strategies to achieve a social or environmental mission. Impact investors invest in a subset of social enterprises that provide a financial return.

Impact investing is an umbrella term that can include all of these concepts. It does not, however, refer to high impact philanthropy where there is no intended return of financial capital (a donation). Throughout this guide, we will use impact investing as the primary term.

What does it include? According to Impact Assets,a non-profit financial services firm that has been a key field builder, "Impact investing is not a uniform, singular approach to capital allocation… but rather a lens through which we view the world and a perspective which allows us to draw upon the proper set of tools required to build capacity, sustainability and, ultimately, impact over the long run."[2]

In other words, impact investing is an investment philosophy, not a particular type of asset class. Investments may be made **directly** to individual enterprises (for-profit or non-profit) or via **funds** (or funds-of-funds) that aggregate investments, which are often in a particular sector and/or asset class. These investments can come in many forms that provide market or below-market rates of return; examples of which are:

> **Loan guarantees for projects or funds –** An organic farming business needs capital to expand its greenhouses. A foundation or individual co-signs a note with the local bank, thus providing both access to capital and better terms for the borrower.

> **Cash deposits –** A local credit union provides favorable rate mortgages and small business loans in a local depressed economy, financed by investors who deposit cash at below-market rates. A "green bank" can provide favorable terms for energy retrofits, due to impact investors' willingness to make cash deposits.

> **Loans to non-profit institutions –** A foundation makes working capital loans to small community arts organizations that meet specified criteria, agree to work with a technical assistance consultant and have the capacity to repay.

> **Loans to for-profit companies –** An impact investing fund manager builds a portfolio of loans to support the expansion of companies engaged in a range of disruptive medical innovations.

> **Equity investments –** A private company with proprietary technology that reduces the cost of solar panel installation needs expansion capital and finances it through selling a share of the business.

[2] Present Risks, Future Rewards, an ImpactAssets issue brief by Jed Emerson and Lindsay Norcott, pg. 5

> **Revenue royalties** – The same company finances its expansion through a technique that provides investors "royalties" as a percentage of revenues, subject to a cap.[3]

> **Real asset investments** – A sustainable timber financing company purchases threatened or damaged land areas around the buffer zone of a national park, establishes sustainable forestry practices and generates carbon offsets while providing a financial return to investors.

> **Micro-enterprise funds** – A micro-finance organization makes loans to cooperatives of women micro-entrepreneurs in Asia, financed by investors who may make a market or below market return.

How is it financed? The financing sources for impact investment assets are becoming more and more diverse. Historically, some of the leading sources have included a few leading foundations, faith-based institutions, and banks (the last due to requirements for community reinvestment). The government has been a frequent partner through credit enhancement and supportive policies.

Individuals, family offices, and foundations are a growing source of impact investing capital today, drawing upon several "pots" of assets, including:

> Personal and/or family private assets
> Foundation endowments
> Foundation grantmaking budgets
> Donor Advised Fund corpus
> Donor Advised Fund grantmaking budgets

PAY FOR SUCCESS STRUCTURES AND SOCIAL IMPACT BONDS

This is a particular new type of impact investment. It refers to an experimental financing structure that brings together government, service providers and investors/funders to implement promising programs designed to accomplish clearly defined outcomes. Investors provide the initial capital support and the government agrees to make payments to the program (who repays the investors) only when outcomes ("success") are achieved.

Estimates of the cumulative size of the impact investing market in 2013 were about $36 billion. J.P. Morgan estimates the potential of impact investing to be $400 billion to $1 trillion over the next 10 years,[4] which is still less than one percent of all financial assets. Advocates have called for the need to go "mainstream" tapping the resources of institutional investors such as pension plan endowments and insurance company portfolios.

Why do it… or not? The interest in this evolving field is soaring. Several of the principal reasons why you may want to adopt these practices are the following:

> You want to **deploy more resources** in support of your social goals. Typically, donors with foundations only deploy 5% per year of their philanthropic assets (minimum payout) towards social good. With an impact investing lens, you may invest some or all of the other 95% for social benefit. Moreover, you may allocate some or all of your private investment portfolio – which may dwarf your philanthropic assets – for social good. There is a "multiplier effect."

> It **expands your portfolio** of tools for social good. You can seek to solve a social/environmental problem through investing in and strengthening a sustainable double or triple bottom line enterprise and a new breed of social entrepreneurs. Most people will agree that philanthropy is not big or powerful enough to solve most social problems. With impact investing, you can use the power of the market to augment your impact.

> You are pursuing the **promise of scale**. If a sustainable, market based solution to a social/environmental problem can be found, it will ultimately attract the enormous reservoir of market-based capital.

> You want to **bring integrity** to your balance sheet – at a minimum making sure that your financial investments are not undermining your social investments; at a maximum, aligning both sets of investments.

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[3] With royalty financing, investors receive a percentage of revenues, which relieves the entrepreneur of the pressure to grow rapidly towards an "exit" and avoids dilution of the original owners

[4] Nick O'Donohoe et al, Impact Investments: An emerging asset class" J.P. Morgan 2010

The Landscape *continued*

However, the use of this lens is not right for every situation and can pose challenges for even the most intrepid social investor. While the rhetoric on the benefits and potential of impact investing rises, the reality is the following:

> The greatest financial risk of all can be considered as philanthropy where 100% loss is guaranteed. So impact investing is an order of magnitude less risky from a financial lens.
>
> -Tom Bird, TPI Senior Advisor

- The infrastructure to support impact investing is immature. There are not enough intermediary organizations or specialized advisors to readily generate and support a robust, vetted, high quality "deal flow" of investing opportunities, funds or platforms. This is especially true in locally focused investing.
- Most non-profit organizations do not have the capacity – skills or experience – to execute (i.e. they are not "investment ready")and there are insufficient resources to develop that capacity. Small for-profit organizations are often in a similar position. For other for-profit and non-profit organizations, taking on impact investments may not add any benefit.
- The track record for this approach is limited and there are few benchmarks to help investors understand appropriate risk/reward pricing. If an investment is yielding both a financial and social return – and the metrics for measuring social/environmental impact are limited, even in philanthropy – how much extra risk is acceptable? Finally, with a limited track record, investors have less confidence that they can "exit" an investment opportunity easily.
- Most philanthropic funders do not have the expertise to analyze, monitor and support investment success while most investment professionals lack the expertise in social impact measurement. It is a multidisciplinary investment class and requires new ways of thinking and behaving that takes many donors out of their comfort zone.

The above notwithstanding, TPI Senior Advisor Lisa Richter comments that "While these challenges are accurate, it is important to remember that the 'conventional' investment ecosystem is by no means foolproof and, while not trying to accomplish half as much as the impact investment field, is seldom judged with the same skeptical lens."

There are many smart people and organizations seeking to address these challenges and develop a 'marketplace' that will make impact investing more accessible, transparent and vigorous with a robust deal flow. But we are not there yet. You can take action in your own regions or issue areas that will help to strengthen the ecosystem. We refer to a few opportunities under the section Build the Field.

Is it risky? Not necessarily. Many argue that the difference is more a matter of timeframe. Impact investments that take into consideration long term sustainability issues and effective governance ("patient capital") may be less risky over time. Many impact investments offer diversification. But it is critical to utilize financial and investment expertise to assess and manage your desired level of risk. Opportunities to "have it all" – a risk-adjusted market rate of return plus a social return – certainly exist, but attract an abundance of investors (which may lower the return). As a result, many impact investors will choose to either (1) increase the risk that they are willing to take or (2) trade off financial or social return.

To some impact investors, added risk means added rewards. Many impact investors who value social return over financial return believe that they can play an outsized role by taking on more risk and being the "catalytic capital" that will attract main-stream investors.

Finally, as TPI Senior Advisor Tom Bird notes, "It depends what you mean. The greatest financial risk of all can be considered as philanthropy where 100% loss is guaranteed. So impact investing is an order of magnitude less risky from a financial lens."

Clarify your Goals

Are you still interested?

If so, the first step is to clarify your overarching goals. What do you want to accomplish and with what resources? Some of the big questions that will help you develop your goals are the following:

1. What are your social goals? What social/environmental issues do you want to impact? Are you agnostic with regard to the areas of impact, or more likely, do you care deeply about one or more social problems and/or specific communities? Some issue areas – such as energy efficiency, affordable housing, child care, health care, and family-supporting job creation – are more conducive to impact investing strategies than others because they offer a revenue stream and measurable indicators of social impact. However, we are seeing many creative approaches to addressing other areas of interest, from providing access to water and utilities to strengthening the arts and education. If you thoughtfully define your social goals first, the rest of the planning will follow more easily.

2. Are you a "finance first" or "social first" investor? Are you looking for a market rate return or are you willing to take below-market returns (including simple return of capital) in order to achieve social goals? We have already touched on this issue, but it is a fundamental question. Most donors and foundations are social-first investors who ascribe substantial value to the social return of the equation and are willing to sacrifice some financial return by filling a niche where traditional investors dare not tread. Others are concerned about sacrificing return and potential growth of financial assets for future use. You may want to do some of each – make social first investments with your philanthropic capital and finance-first investments with your personal investment capital.

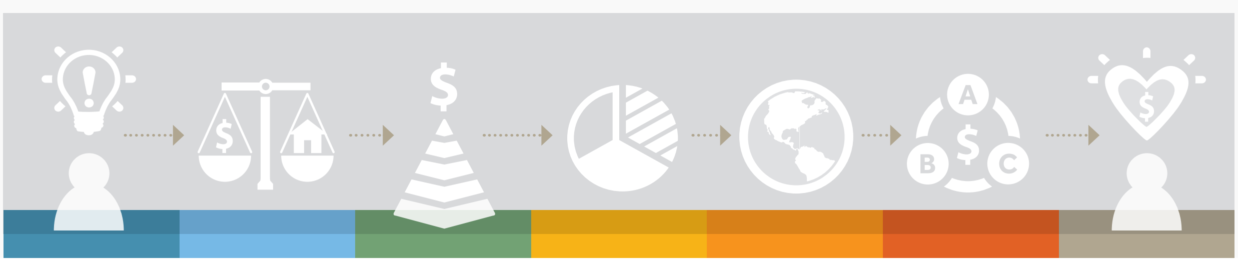
3. What money (capital sources) will you use? Do you want to use money already dedicated to philanthropy and/or do you want to use other private investment resources? If you are drawing on philanthropic capital, do you want to use principal – such as the corpus of a donor advised fund or foundation endowment – or take it out of your grants budget? Using the corpus and/or private investment resources can multiply your resources for social good. You may want to use a variety of capital sources and deploy them with different goals.

4. What percentage of your financial resources will you dedicate to impact investing now? Potentially in the future? Do you want to go all in or experiment with a few limited investments and see how they perform? Most investors are carving out a percentage of their assets for this purpose while the market continues to develop. They may invest the remainder in socially responsible or mainstream funds. Some advocates are pushing for foundations – which have collective endowments of over $600 billion – to lead the way and make a 100% commitment to impact investing.

5 What geography(ies) do you want to impact? Do you want to work locally, regionally, nationally or internationally? Today, it is much easier to invest in impact investing funds that are national or global in scale than regional and local funds due to market size limitations and the small number of local intermediaries. While there is variation by geography, many of these local funds do not have the ability to market themselves as investment ready opportunities to investors; however, locally-based private investors and foundations often have on-the-ground knowledge of local individual enterprise opportunities – including grantee organizations – and can prove to be an excellent resource.

6 What asset classes are you most interested in? Different asset classes offer different levels of liquidity, risk and return. Generally, loans, deposits and guarantees will provide lower financial returns, but offer more liquidity and lower risk (although of course, this varies greatly deal by deal). Equity shares, available only in for-profit enterprises, may offer significant return but also higher risk and lower liquidity, especially if you are considering early-stage companies. New breeds of “hybrid” enterprises have emerged in recent years including the L3C Corporation and the B Corporation.

7 How engaged do you want to be? Do you want to spend a lot of your time looking for opportunities, analyzing them and even working directly with investees to help them succeed? Or do you want to be hands off, and have experts do all the work? If the former, how do you get smarter and immerse yourself in the emerging deal flow? Or create new opportunities? The sections below lay out the work that needs to be done and the resources that could support you.



The Story of Two Impact Investors

Your approach and strategies will depend on your goals and beliefs. The fiction alized examples below are intended to demonstrate the range of approaches.

SOCIAL FIRST

Susan felt uncomfortable for many years that she was not managing her finances in alignment with her values and interests in education for girls and economic empowerment for women around the world. She has decided that she wants to experiment with impact investing, first using her foundation's investment assets. She instructs her investment manager to shift her philanthropic assets over time into a combination of concessionary and market-rate funds that have been screened with a "gender lens." She also allocates about $200,000 for a loan guarantee fund that helps women entrepreneurs and co-operatives get affordable access to capital.

FINANCE FIRST

Frank believes that it is not only possible, but smart, to invest in enterprises that have long term, double bottom line goals and approaches. He figures businesses that are seeking to solve critical social problems – like energy efficiency, waste disposal or sustainable agriculture will out-perform over time. He works with investment managers who deploy his personal and philanthropic assets across a full spectrum of asset classes with this triple bottom line lens. Committed to strengthening the economy of his rural state, he uses traditional philanthropy to support workforce development programs at the community college system.

Explore Investment Opportunities

You have a sense of your overarching goals, so what's next? Ultimately, you will want to develop an investment policy, strategy and execution plan. But first, you may want to dive into a deeper understanding of the marketplace and the range of investment opportunities that might meet your goals.

When it comes to deploying capital, you have two basic choices:

> Invest in funds (or funds-of-funds)
> Directly invest in specific enterprises or one-off deals

In either case, you can invest in for-profit or non-profit enterprises. (Note: Foundations and donor advised funds can invest in for-profits out of their principal or through the use of program related investments.)[7]

Many people are drawn to direct investments because they tell a compelling, concrete and personal story that matches the specific goals of the investor and the investor may have more control over the investment terms. Others are drawn to funds because they offer greater diversification, have been vetted by experts and will be managed by professionals. Funds-of-funds are the most accessible way

CROWDFUNDED IMPACT INVESTING

Crowdfunding is the collection of funds from a large pool of backers to support an initiative, organization, individual or company. Donation-based (e.g. Kiva.org, for micro-enterprise), perk-based (e.g. Kickstarter, for a variety of projects) and credit-based (e.g. Prosper, a peer-to-peer lender) funding portals have been tremendously successful. Recent legislative changes (via the JOBS Act) have made equity-based crowdfunding more accessible to accredited investors and regulations are pending to make small offerings – i.e. investments of $2,000 to $100,000 – available to non-accredited investors. The U.K. is ahead in the development of these portals, but, according to the World Bank, the new U.S. laws are projected to create a $300 billion market of potential new investors by 2025.

[7] Foundations using PRI's to invest in for-profit entities must use expenditure responsibility

Explore Investment Opportunities *continued*

for investors to access a highly diverse portfolio. Investors committing significant resources and time to impact investing will often do all of these. When investing on a local, place-based level, the funder is often restricted to direct investments unless there are strong regional intermediaries.

Identifying a portfolio of potential investments in either sphere can be challenging. A number of leading investors imagine the day when there is a robust "Social Stock Exchange" that will serve social enterprises and investors alike and facilitate transactions. A few of these efforts are currently in nascent stages.[8] Others envision the day when the notion of triple bottom line investing will be fully mainstreamed. In the meantime, there are a number of people and networks that you can explore.

Find partners. As mentioned several times in this guide, the challenge for everyone in this emerging marketplace is readily finding high quality "investable" opportunities. Proactively looking for the right type of investment opportunities on your own is a major undertaking; thus working with trusted partners is essential. Moreover, partners may aggregate investment capital. Some partners may be in plain sight. Build on relationships that you have developed through your grantmaking experience or private investment activity. These partners may include the following:

Advisors and Consultants – You may elect to work with a financial/wealth advisor or specialized impact investing consultant to help you navigate these choices. These firms – who typically do not directly manage any funds themselves – offer expertise and objectivity. They can help develop an investment policy and construct a portfolio of funds, intermediaries and specific deals/projects. They charge advisory fees, may have high minimums and may lack experience making investments in not-for-profit organizations or the local community. (Unless you are able to tap into a growing group of specialized impact investing consultants.) Some fund managers, banks and intermediaries can also serve as advisors.

Fund Managers – There are now hundreds of impact investing funds in the marketplace, managed mostly by for-profit fund managers, although some non-profit organizations have created social purpose funds and "community notes" available to the smaller sized investor. They include debt, private equity, and venture capital funds with various geographic and sectoral foci. There are a growing number of "funds of funds" which provide further diversification. Many funds have large minimum investments – e.g. $2 million – while others are available to an investor who can put up as little as $20. New online tools (e.g. ImpactBase) are making available information on these funds directly to the investor; however, the track record for many is limited given the pioneering nature of the industry.

Intermediaries – There is an important set of non-profit intermediary organizations that do the hard work of identifying, vetting and managing impact investing opportunities, often on a community level. The dominant players are the 800 Community Development Financial Institutions (CDFIs) in the United States, mission driven financing entities certified by the federal government to

IMPACTBASE

The Global Impact Investing Network (the GIIN) launched ImpactBase in February 2011 as a free resource to foundations and other accredited investors to reduce search costs in the impact investing market. According to Mission Investors Exchange, "it is the most comprehensive directory of impact investing intermediaries, products and funds." As of March 2014, it included over 300 different funds, which have been curated by professional review. It has a powerful search capability that allows an investor to search by market vs. below market-rate expected financial return, geographic regions of the world, asset class, and impact theme (access to basic services, access to finance, green technology/clean tech, environmental markets and sustainable real assets, sustainable consumer products, employment generation or other). This is an excellent starting point for learning about impact investing funds. It does not provide information on individual social enterprises in which the funds invest.
www.impactbase.org

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[8] For example: Mission Markets (www.missionmarkets.com); GATE (www.gateglobalimact.com); SVX in Canada (www.svx.ca)

provide lending and financial services to low income, disadvantaged communities. They tend to offer a below-market rate of return and sustain their operations through a mix of fees and philanthropic capital. They vary widely in capacity and services offered, although many of them have traditionally focused on the housing and community development sectors. CDFIs provide the investor with one of the rare local supports for impact investing and can help to develop and manage customized programs for significant investors.

Community Foundations – A small number of community foundations are stepping up to become "aggregators" of capital for impact investing, typically inviting donors to allocate a limited percentage of their donor-advised fund corpus to locally-focused impact investing pool. They often work directly with local intermediaries, but sometimes build the capacity in-house to source and find opportunities, often with a thematic focus. Some community foundations will also serve as an advisor, helping their donors make individual investments, such as non-profit loan funds. TPI, a contributor to the Council on Foundation's *Community Foundation Field Guide to Impact Investing*, believes that Community Foundations can play a vital role in strengthening the local infrastructure.

Peer Networks and Showcases – One of the most enlivening and educational ways to enter the impact investing field is through one or more of the peer networks and membership organizations that have sprouted up over the years. The opportunity

CARS™ (CDFI ASSESSMENT AND RATING SYSTEM)

An independent national information service that facilitates the flow and growth of capital to CDFI loan funds, CARS™ issues rigorous and detailed performance analyses and ratings – for impact performance and for financial strength - that inform the funding and investing decisions of socially-motivated CDFI investors. Investors may purchase analyses of individual CDFIs or subscribe to an annual service. The CARS database includes about 75 of the largest CDFIs such as: Calvert Social Investment Fund, Enterprise Community Loan Fund, Opportunity finance Network, and Self Help Credit Union.

to learn with experts and experienced peers is unparalleled in terms of inspiration and practical on the ground knowledge-sharing. They can be a great resource for investment ideas, co-investors, best practices, inspiration and field-building collaboration. Some provide virtual bulletin boards of investment opportunities. Several offer showcases where vetted social enterprises present their case to groups of investors. Key organizations include:

> Mission Investor Exchange is the primary group for domestic Foundation trustees and staff, offering a three-day Mission Investing Institute, a national conference, webinars and a variety of workshops across the country.

> Confluence Philanthropy serves philanthropic and private investors with webinars, trainings, an annual conference and working groups on thematic issues (e.g. Sustainable Fisheries, Water Access)

> The Global Impact Investing Network, or GIIN is a diverse global community of organizations – investors, advisors, fund managers – dedicated to increasing the scale and effectiveness of impact investing. Members of the GIIN are connected to a thriving peer community and gain formal access to industry information, tools and resources. This group has developed rating standards and the online database, ImpactBase.

> Acumen and Toniic are examples of two global networks bringing investors and social entrepreneurs together virtually and in conferences to forge partnerships

> SOCAP is the largest international conference on social enterprise and impact investing.

> Investors' Circle and Slow Money are two of the most robust domestic networks focused on offering "showcases" of impact investing opportunities. Slow Money has 17 local/regional chapters (including in Seattle, Maine and Massachusetts) and six investments clubs.

> Local Social network sites, such as LinkedIn, host a variety of virtual forums where members post questions and discussions. For early learners, it is a great way to get a taste of the field and build smaller, focused networks of like-minded peers.

Explore Investment Opportunities *continued*

Working with grantees. Foundations often look to their current grantees as potential candidates for an impact investment, typically in the form of a program-related investment. This can make good sense since these groups have already passed the screens of mission fit and organizational effectiveness. Once a foundation has developed comfort with the practice of impact investing, they are more likely to look further afield to new organizations.

A program related investment can make sense only when the following conditions are in place:

> The investment will further the foundation's mission and program

> An investment (loan or equity) is the right tool for the job (e.g. it may attract other capital, it helps to build business skills within the organization, the project is too large to be financed by grant capital alone, etc.)

> The organization(s) has a clear and credible plan for repayment and organizational capacity to follow through

TRENDS IN PROGRAM RELATED INVESTMENTS

- The number of foundations making PRIs and the amount invested has generally increased since the 1990s, although there was a significant decline after the 2008 recession
- During 2000-2010, over 400 Foundations made PRIs.
- About 75% of PRIs made during 2000-2010 were under $1 million
- Nearly two-thirds of PRIs during 2000-2010 were loans
- Public and societal benefit, human services and education (specifically housing, community development, and education) were the three most popular program areas for PRIs from 2000-2010

Most PRIs are structured as loans, but they can be structured as any investment type including loan guarantees, certificates of deposit and equity or equity type arrangements. Typical scenarios include the following:

> **Bridge financing –** a land conservation organization has to act quickly to save a piece of land, but has a plan in place to raise the purchase price over time

> **Enterprise expansion –** a health care organization with proven effectiveness in one region is poised to expand state or nation-wide and needs capital to go to scale

> **Working capital financing –** a theater organization receives significant fee and sponsorship revenue during the "season" but needs working capital financing to manage receivables throughout the year

Most non-profit organizations do not have staff expertise, systems or experience as "investees" and foundations often find that they need to provide additional technical assistance – or a capacity building grant – to help a grantee be "investment ready." Sometimes, it is more important to make a grant that helps the organization become credit worthy and attract investment dollars from others. In addition, most foundations do not have the expertise and capacity in-house to structure and manage a PRI portfolio and would do well to work with partners. However, together you can build new ways of working together on tough issues.

A final word on working with grantees. There are many good reasons to work with these mission congruent organizations that you know well, but be careful to keep on your business hat when considering a program related investment. Don't get seduced by the novelty of impact investing and your commitment to an organization's mission to think that you can save a non-profit that is in trouble, or doesn't have the capacity to follow through.

Develop and Execute an Impact Investing Strategy

Whether you decide to move forward slowly with one or two deals or go "all in" on impact investing, you will want to articulate your goals, define your strategy, and make sure you've got the skills and capacity to execute and assess progress. Briefly (this primer is not designed to offer comprehensive guidance on this), these steps include:

Develop an investment policy – The policy will typically include: a goals statement, percentage of your portfolio dedicated to impact investing, asset allocation targets/ranges and performance benchmarks. The goals statement will address such areas as: desired income generation, principal growth, liquidity needs, volatility and risk parameters, investing time horizon and social impact goals, including "impact themes" or areas where you would like to make a difference. This will help make impact investing work for your needs. Your impact investment policy can be separate from or integrated into an overarching investment policy.

Define your strategy – Building off your investment policy, develop some indicators of success for your financial and social/environmental goals. Determine the primary strategies and approaches you will use, including which tools/investment products as well as how you will source and assess investments and how you will align investments with your philanthropic strategies. Develop a budget, timeline and action plan. Be sure to build in plenty of time and resources for learning, building your capacity to execute and assessment.

Build your capacity to execute – The expression "execution trumps strategy" rings true for impact investing. Most traditional philanthropists and foundations will not have the capacity in-house to jump into impact investing. Impact investing requires not only program expertise, but ability to do credit analysis, financial and organizational due diligence, legal skills and new systems for monitoring and tracking payments. You may elect to train existing staff, hire new staff, use consultants or work with intermediaries such as banks or CDFIs who can execute. Co-investing with experienced impact investors is another way to execute.

Assess your progress – Finally, you will want to build in systems and milestones for assessing your progress. This begins with making sure your own goals are clear and developing good systems for investee reporting. The Global Impact Investing System (www.giirs.org) is a promising new set of standards that may ultimately allow you to track and compare the progress of your investees. It draws upon IRIS (Impact Reporting and Investment Standards), a catalog of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial success of their investments (http://iris.thegiin.org). You will need to ensure that there is a strong linkage between investee reports and your goals.

Build the Field

At this early stage of the impact investing marketplace, philanthropy plays a critical role in building the infrastructure, providing technical assistance and subsidizing organizations so that they can access mainstream capital. The Social Impact Bonds issued in New York City to finance recidivism reduction programs would not have been possible without the Bloomberg Philanthropies' loan guarantee (thereby assuming the risk) to Goldman Sachs's investment. The Global Impact Investing Rating System was built through philanthropy. Most accelerators and incubators, focused on building the pipeline of opportunities, are largely underwritten through philanthropy.

As you consider your own impact investing strategy, you may see opportunities to strengthen the field internationally, nationally or locally. A few examples of ways you can have a broader impact are:

- Convene other donors/investors in your focus area and/or geography and build a peer support network. Ultimately, this group could evolve into an investment circle, where you source funding opportunities in one or more sectors. As a start, it would provide a forum for like-minded donors/investors to learn from each other and identify what the field needs.
- Make grants to allow intermediary organizations (e.g. a CDFI) or peer networks to strengthen or expand their services.
- Develop a loan and/or technical assistance fund to help non-profits in your area better understand the opportunities of impact investing.
- Support a movement like Divest-Invest, in which foundations are pledging to divest from fossil fuel investments and switch to clean energy investments.

Examples of Impact – Domestic and International

SAVING FARMLAND AND SUPPORTING A FARMING CULTURE – The Maine Community Foundation combined its resources with 9 donors in 2009 to make a $1 million low interest loan to help Maine Farmland Trust permanently protect farmland. As of 2013, 19 farms covering 7,867 acres have been protected from development and transferred to the next generation of farmers. These projects also leveraged over $3.5 million in bank financing and nearly $2 million in additional loan funds from private investors.

EMPOWERING SMALL FARMERS – Since 1999, Root Capital has been growing rural prosperity in poor, environmentally vulnerable places in Africa and Latin America by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses. Investors may make investments of as little as $25,000 and receive a 1.5-3% fixed income return, depending on the duration of the loan. Within the Root Capital portfolio are companies like Burquina Faso-based Fruiteq, whose financing enabled it to buy high quality mangoes from 830 farmers at premium prices (3X higher than the local price). As a result, farmers' income from mangoes increased by 43%.

CLIMATE CHANGE – Co-founded by Vice President Al Gore and David Blood. Generation Investment's management team believes that sustainability factors will drive a company's returns over the long term. Their Climate Solutions Strategy portfolio invests in growth stage private and publicly listed businesses that are generating value by contributing towards the transition to a low carbon sustainable economy such as energy efficiency and agricultural and forestry solutions. Investors have yielded competitive market returns.

Examples of Impact – Domestic and International *continued*

DEVELOPING A RELIABLE AMBULANCE SERVICE IN MUMBAI – Acumen, a non-profit global venture fund invested $1.5 million in Ziquitza Healthcare in 2007 to help grow their services and fleet of ambulances. In less than 2 years, the number of ambulances grew from 10 to 98; in 6 years the number grew to nearly 900 who could respond to hundreds of thousands of emergency calls and developed training programs to train its own emergency care doctors as well as educate the general public. The investment horizon was estimated to be 5-10 years and Acumen's overall portfolio of equity investments has a gross return potential of 10-15%.[9]

SOCIAL CHANGE THROUGH FILM – Jeff Skoll founded Participant Media in 2004 with the belief that a story well told has the power to inspire and compel social change. Participant's films are accompanied by social action and advocacy campaigns to engage people on the issues addressed in the films. Jeff has served as Executive Producer on over 45 films to date, which have collectively received a total of 7 Academy Awards® and 36 nominations. Participant's films include, among others, Syriana, An Inconvenient Truth, Charlie Wilson's War, The Cove, Waiting for "Superman", and Food, Inc. In 2009, Participant launched its digital hub TakePart.com, a leading source of socially relevant news, opinion, entertainment and information about ways to get involved with the issues that shape our lives, and in August 2013, Participant expanded into television with the launch of its new network, Pivot, targeting the millennial audience. (Excerpted from Wikipedia). ImpactPartners offers donors/investors the change to join with others to produce socially responsible films.

SAVING HOMEOWNERS FROM FORECLOSURE – The 2008 financial crisis threw millions of homeowners into foreclosure as they lost their jobs and found the value of their homes dropping precipitously. Boston Community Capital (BCC), a community development financial institution (CDFI) that provides financing for affordable homes, community facilities and businesses serving low-income people and communities, launched the SUN initiative (Stabilizing Urban Neighborhoods) in 2009 to prevent eviction and help Massachusetts residents who were facing eviction due to foreclosure to repurchase their homes. SUN works with banks and attorneys to stop the eviction process, purchase foreclosed properties at current market values, and resell those properties to their current occupants at a significant discount off the prior mortgage value. To date, it has prevented the eviction of over 450 Massachusetts residents—helping them repurchase their homes and reducing average monthly housing payments and mortgage principal balances by 38%. The program recently expanded to Maryland and is exploring expansion to several other states in 2014. BCC finances SUN mortgages with debt capital (7 year notes earning 4.25% annual interest) raised from investors, including high net worth individuals and foundations.

[9] From Investing for Impact, Case Studies Across Asset Classes, Bridges Ventures and The Parthenon Group

Putting it all Together

We hope that you are intrigued about the potential role of impact investing in your investment and/or philanthropic portfolios. The opportunity to both bring new tools and dramatically expand the pool of capital directed to positive social change is enormously exciting for all of us who care about making a dent on what seem like intractable problems.

We also hope that you recognize that this type of investing requires a complex set of skills and expertise to add to your traditional program repertoire – a true multi-disciplinary approach.

Most important of all, we hope that you are feeling better equipped to begin navigating the territory and explore whether it makes sense for you to get involved, and if so, how. That you know a little more about where to get advice and support, where to look for investable opportunities and have some ideas for the kinds of activities and investments that might match your goals.

TPI would be delighted to help you take your next steps.

Additional Resources

There are a rapidly growing number of organizations and resources available to new and experienced impact investors. Some of the key organizations include the following:

Mission Investors Exchange
www.missionivnestors.org

Initiative for Responsible Investment
www.hausercenter.org/iri

Confluence Philanthropy
www.confluencephilanthropy.org

Global Impact Investing Network
www.thegiin.org

The Forum for Sustainable and Responsible Investment (US-SIF)
www.ussif.org

Notes

Take a Step

Take a step towards more strategic philanthropy.
Leave a lasting mark.

Call to open the conversation or visit us online:
617.338.2590 or www.tpi.org

Together, we'll take your giving further.

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The Philanthropic Initiative

Act boldly. Give wisely.

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