



LET'S TALK ABOUT IMPACT INVESTING

A discussion guide for foundation boards

This tool is designed for boards that find themselves repeating, from meeting to meeting, “we need to learn more about impact investing.”

The guide creates a simple exploratory conversation for trustees. In 90 minutes, the board can get a feel for the intention and reality of impact investing. We include sample investments from real foundations, to introduce key concepts, with discussion questions that gently probe whether the strategy holds promise for your foundation.

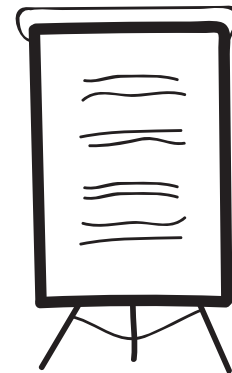
This is the same process The Giving Practice uses when we first consult with foundations on impact investing. We invite trustees to check out real investing practices, and we involve all the board members in reacting and asking questions. Our examples are non-technical, so we can concentrate on the core motivations and basic features of impact investing in today's foundations. Did we say it can be fun?

How to use this guide

1. Prior to the meeting, send out the discussion guide. Ask board members to review the impact investing samples.
2. On meeting day, allow for 90 minutes of good conversation, with some flip charts on hand.
3. The discussion starts with each person's initial impression of impact investing.
4. Trustees pair up to delve into one real-life impact investing example.
5. The group discusses the investments they have sampled, asks questions and identifies points of further interest.

1. State the working definition and assumptions

Discussion leader: "Today we want to explore the concept of impact investing, and assess whether we want to learn more. We'll do this by looking at examples from the field and seeing whether the work resonates for us. Please hold these assumptions for our conversation." (You can post the two assumptions on flip charts.)



1. **Impact investing means intentionally seeking both mission impact and financial return from investments we make in our grant program or from the endowment. We will flesh out this definition with examples during the conversation.**
2. **Foundations earn a range of financial returns on impact investments, from concessionary or below-market, to conventional or market-rate. We are all aware of the importance of financial returns. Be aware that you will see both concessionary and market-rate returns in the examples we discuss today.**

2. Note first impressions

Discussion leader: "Take a moment to consider anything that you know about impact investing. Individually, please jot down your thoughts below."



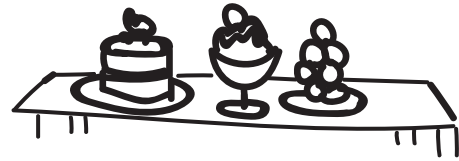
What impressions do you have about impact investing?

What questions do you have about impact investing?

What about impact investing seems interesting for our foundation?

"Now pair up and share your thoughts with another board member, two minutes each. Reconvene the full group and compare notes." (Record emerging themes on a flip chart.)

3. Sample the possibilities



Discussion leader: "Pair up with a new person. Each pair should pick one impact investing sample from pages 6-9. Take 10 minutes to read through the sample, making notes on the questions below. Then share your thoughts with your partner, taking 3-4 minutes each."

What is appealing, admirable or intriguing about the example?

What makes you feel dubious, concerned or confused?

Give the example a rating 1 (low) to 5 (high) for your interest in learning more about this type of investing and why.

Have each pair report on their conversation to the large group. Write the name of the investment sample on the flip chart, record their "rating" and capture the main points that they discussed. Keep recording on flip charts the questions, themes and insights that arise.

4. Should we learn more?

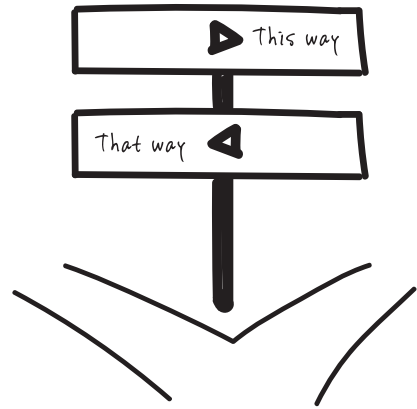
Discussion leader: "Turn your attention to the rating scores. Knowing that our information is very basic, take a moment to jot down your individual reactions."

Is your interest rating on these samples similar to your peers?

Which of the investments you learned of merit learning more?

Now, create a standing "heat map:" Label one point in the room "very interested in learning more" and another "let's not spend more time on this now." Trustees should stand in the place that reflects how close they are to either point today. Ask people why they chose their positions and notice the patterns. Is there a lot of agreement for next steps? Do we want to follow up with more exploration of impact investing?

On the next page, we list potential follow-up steps for boards who are interested in learning more about impact investing.



Suggested actions for boards that want to explore more

- ✓ Invite an active foundation impact investor to attend your next board meeting and share information. This can happen by phone or video link and still be very effective.
- ✓ Ask a consultant to provide an impact investing educational session around your foundation's work.
- ✓ Check The Giving Practice website for more impact investing resources coming soon.
- ✓ Check out the websites of Mission Investors Exchange and Confluence Philanthropy.

Impact Investing Samples

Portfolio Strategies



Shift the Full Endowment Portfolio to Impact-Based Holdings

- Revisit the investment policy to add mission intentions to your investing criteria.
- Over 24 months, work with your investment advisor to replace old holdings with new stocks, bonds and equities.
- Maintain current endowment earnings and payout goals.

Investment Summary

A \$200 million family foundation hired an impact financial advisory firm to incorporate impact throughout the endowment portfolio. The firm helped them articulate new investment policies that include environmental and social goals. They did not change their financial returns or payout goals.

Over 24 months, the foundation transitioned about 75% of their investments, working in all their asset classes to align with their impact goals. They added mission impact to their quarterly endowment reports and continue to learn and evolve their approach based on the results. The foundation continues to seek investments to reach a 100% mission endowment.



Try Impact Investing in a Portion of the Endowment

- Direct the investment committee to align some of the public equities in the endowment with the foundation’s mission.
- Work with a manager to divest of stocks supporting private prisons and weapons (for example).
- Replace these stocks with companies that perform highly on environmental measures or that support diversity in company leadership.
- Maintain current financial returns and payouts.

Investment Summary

A foundation decided to test impact investing in 10% of its \$250 million endowment portfolio. It chose to focus on its public equities assets. The Investment Committee chose a new public equities manager who excluded stocks involved in private prisons and weapons, and included stock in companies ranked in the top-quartile for certain environmental practices. The financial returns earned by this manager tracked closely with the public equities index already used as the earnings standard in the foundation’s existing Investment Policy.



Divest From Carbon and Invest in New Energy

- Audit current endowment investments for their carbon impact.
- Assess findings.
- Gradually divest from heavy carbon emitters, and invest in lower emitters and new energy sectors.
- Maintain current financial returns and payouts.

Investment Summary

A foundation committed to combating climate change requested a third-party carbon audit of its endowment holdings. They received data on the emissions likely created by their investments in sectors like energy, utilities, metals and mining. The audit also estimated carbon-related risk in the portfolio: investments that stand to lose value in a warming climate. Armed with baseline numbers, the foundation made a five-year plan to divest from the heaviest-emitting companies. They also plan to invest in lower-emitting sectors and in companies using carbon-reducing strategies and providing sequestration through forestry, agriculture and wastewater management. Financial returns have been held constant with previous rates.

Individual Investment Samples



Make a Local Real Estate Investment Strongly Aligned With Grants

- Work with a current grantee that has strong financial condition and solid leadership.
- Provide a loan to help the grantee buy a building to house its program.
- This is priced at a concessionary rate to help the nonprofit get into its building.

Investment Summary

A long-time foundation grantee informed a local family foundation that it was finally ready to buy its own building. The grantee is a nonprofit providing social services in three low-income neighborhoods in a large city. Because the foundation does not make grants to capital campaigns, it offered a \$500,000 loan to help with the building purchase. The nonprofit provided financial projections that showed strong earned revenue and fundraising, projecting loan payoff in six years at 2.5% annual interest. The foundation has since made two other building loans to long-time grantees with strong financial capacity.



Protect Vulnerable Forest Land by Investing in a Reit

- Conservation Real Estate Investment Trusts (REITs) buy and manage income-producing forest land on behalf of investors.
- They use sustainable forestry practices that are good for soil, water, trees, animals and communities.
- Foundations purchase REIT shares as part of their private equity endowment holdings.
- Financial returns vary and can be close to market-rate.

Investment Summary

A foundation interested in conservation of natural resources invested \$500,000 in shares in a Real Estate Investment Trust (REIT) operated by a for-profit timber management company. After a holding period of 8 years the foundation realized a 7% return on the investment.

The REIT buys forestland that is vulnerable to development or to sales that break up important landscape-scale conservation patterns. The REIT institutes sustainable forestry practices and places long-term conservation requirements on the forestry parcels it buys. The parcels are eventually sold to new conservation owners (sometimes government).



Invest in a Small Business Loan Fund

- Find a local nonprofit that pools investments to create a small business loan fund.
- Loans go to local entrepreneurs, often low-income or in underserved neighborhoods.
- The nonprofit manages the entire lending process for investors.
- Financial returns are generally 1-4%.

Investment Summary

A foundation has a mission to fight poverty. It invested \$250,000 in a loan fund managed by a local nonprofit. The fund makes small business loans throughout the foundation's home city, often to poorer community members and neighborhoods. The foundation highlighted one of the borrowers—a woman who owns a gymnastics school—in its annual report.

The investment is for five years, paying 3% annual interest. It qualifies as a grant or “program-related investment” but in this case the foundation made the investment as part of the endowment.



Buy Bonds That Finance Local Projects

- Find a manager that can purchase bonds financing small business, affordable housing and community facilities in your city or state.
- Replace a portion of your fixed-income holdings with the “local” bonds.
- Maintain current financial returns and payout level in the endowment.

Investment Summary

A foundation with a one-state service area instructed their financial advisor to invest in bonds that are issued in their state. They found a mutual fund that holds government-backed investments in small business, affordable housing and community facilities—all in low-income census tracts in their state. The foundation placed \$250,000 in AAA+ rated bonds. The financial returns are equivalent to those earned on other bonds the foundation holds. The foundation receives a quarterly report detailing specific businesses, affordable housing and health facilities tied to their bond purchases.