by MARK R. KRAMER & SARAH E. COOCH

the POWER of Strategic Mission INVESTING

A growing number of foundations are offering low-interest loans, buying into green business ventures, and investing in other asset classes to advance their missions. Yet most mission investing remains haphazard and inconsequential. To bring about real change, foundations need to take a fundamentally different approach, making strategic mission investments that complement their grantmaking and leverage market forces.

Foundations usually try to solve the major social problems of our day – such as poverty, homelessness, global warming, and lack of healthcare – by making grants to nonprofits. Yet the lack of grant money did not cause these social problems. Instead, they are often attributable to market failures, where a misalignment between social goals and economic incentives has created or perpetuates social ills.

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.

Some foundations have already begun to consider social values in their investment decisions, screening securities portfolios for undesirable stocks, using shareholder activism to change corporate behaviors, investing in socially responsible businesses, and making loans to promising nonprofits.

Although removing tobacco and defense stocks from investment portfolios, voting proxies, buying a few CDs from a community development bank, and making occasional loans to grantees are helpful, these tactics are not sufficient. Rather, foundations need to become *strategic* in their mission investing, selecting investments that directly advance their core missions, coordinate with their grantmaking, and leverage market forces to achieve large-scale social change.

Just as corporate foundations are increasingly aligning grant giving with their parent companies' overall business strategy, so too must private foundations align their investments with their program strategies. For example, foundations concerned about global warming should not only

ILLUSTRATION BY THEO RUDNAK

give grants to environmental nonprofits, but also invest in venture capital funds for clean energy start-ups, finance energy-efficient retrofitting of commercial properties, and buy municipal bonds that fund mass transit systems.

The idea that foundations should use their investments to advance social change is not new. Experts such as Jed Emerson, a consultant, and Luther M. Ragin Jr., vice president of the F.B. Heron Foundation, have written and spoken widely on the subject.[1] What has been missing, however, is the layer between theory and practice: the hard data and analytical framework that can show foundations what they must do if they are to integrate their investments with their grantmaking strategies and intentionally use market forces to achieve social change. These are what we attempt to present in this article.

Adopting a *strategic mission investing* approach is not easy. Foundations must make fundamental shifts in how they operate. They must study how the flow of capital affects the social issues that they address. They must integrate their grantmaking and investing operations, building systems that report simultaneously on social and financial returns. They must impose financial discipline on grantees that receive investments, and even reach out beyond the nonprofit universe to work with a new set of partners in the commercial sector.

Our research reveals that very few foundations are using their endowments in this holistic manner. Instead, many are only experimenting with one-off mission investments, and only a few have graduated to a more strategic approach. Yet the ranks of strategic mission investors are growing, setting the stage for wider experimentation and innovation. These foundations are also challenging the orthodoxy that grantmaking is the only tool foundations should use to effect social change.

We don't suggest that mission investments can solve all the social issues that foundations address. Many social problems are simply not amenable to market-based solutions. Yet as foundations increasingly experiment with mission investing they are discovering new and effective ways to further their missions through their investments.

Growth and Diversity

Our consulting firm, Boston-based FSG Social Impact Advisors, recently completed the most comprehensive study to date on mission investments (as opposed to the broader universe of social investments), which we define as investments that proactively further a foundation's mission.[2] (See related article at right for an explanation of *mission investing* and other terms used.) Funded by the David and Lucile Packard Foundation, our study analyzed the mission investments of 92 U.S. foundations.

What we found was encouraging. Among foundations of all sizes in our sample, mission investing has steadily and dramatically increased, with the value of new dollars committed growing at an annual rate of 16.2 percent over the last five years, compared to just 2.9 percent during the preceding 32 years. And smaller foundations are starting to outpace the larger ones.

Historically, four large foundations – the Ford Foundation, the David and Lucile Packard Foundation, the John D. and Catherine T. MacArthur Foundation, and one foundation that prefers to remain anonymous – made the majority of mission investments. But in 2005, foundations other than the big four invested at least 44 percent of all new mission investment dollars, representing an annual growth rate of 29 percent over the past five years – more than double the growth rate for the big four. Indeed, foundations with assets under $200 million increased their mission investing more than any other group in FSG's sample.

The vast majority of private foundations that make mission investments concentrate on program-related investments (PRIs), whose primary purpose is to further the foundation's charitable objectives, rather than to earn financial returns. The IRS allows foundations to count PRIs as part of their required 5 percent annual payout. Most PRIs are below-market-rate loans made to foundations' grantees with interest rates between zero and 3 percent.

Many foundations assume that such loans are high risk, but FSG's analysis suggests otherwise. Of the 28 foundations in our sample that collectively made $230 million in loans that matured during the past 40 years, 75 percent experienced no defaults. At the other extreme, three foundations had cumulative default rates in excess of 30 percent, suggesting that they deliberately chose to make riskier loans.[3] Encouragingly, default rates for all mission investment loans have declined dramatically over the years so that, excluding the three high-default foundations, the overall full repayment rate of principal and interest in this sample set was 96 percent.

Although most foundations concentrate on PRIs, many are starting to make market-rate investments that earn returns comparable to those of conventional investments in the same asset class made without considering social returns. These investments include loans that carry interest rates at or above the prime rate, municipal bonds, and equity investments in real estate development. Over the past five years, market-rate mission investments have grown three times as rapidly as below-

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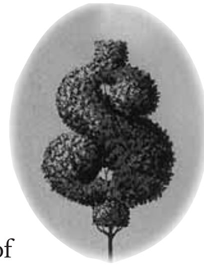
market-rate mission investments. In 2005, 11 percent of foundations' mission investments had expected rates of return that were near or at market rates.



Foundations are also diversifying the types of mission investments that they make, moving beyond loans and exploring areas such as private equity and venture capital. In our sample, we found foundation investments in 18 out of 20 possible mission investing asset classes. (See table on p. 51 for descriptions of various asset classes.) Here, too, smaller foundations are leading the way in experimenting with innovative financial instruments. Unlike PRIs, which are typically drawn from program funds, market-rate mission investments are often made directly from the foundation's endowment, or from a segregated pool of endowment assets.

Endowments and the income that flows from them are foundations' lifeblood, so it is understandable that most foundations are proceeding cautiously when it comes to putting endowment funds into less conventional investments like mission investing. Yet major U.S. foundations haven't hesitated to shift a significant proportion of their assets into other unconventional investments, such as hedge funds, private equity, natural resources, and international stocks. Foundations have moved into these investments, as risky as they sometimes are, to diversify their portfolios and increase their returns. According to the Commonfund Institute's recent study of 279 foundations, unconventional investments (hedge funds, venture capital, etc.) make up 23 percent of foundation holdings, and international investments make up another 20 percent.[4] Mission investments, in contrast, make up only about 2.4 percent of the assets of the foundations in FSG's sample, and less than one-twentieth of 1 percent of all U.S. foundation holdings.

Mission Investing and Other Lingo

Foundations use many terms to refer to what we call ***mission investing***. The lack of a consistent terminology poses a growing problem as the practice of mission investing expands. We chose the term mission investing because it conveys the purpose of these investments. We did not use the similar but distinct term ***mission-related investing***, because it is sometimes used to refer to only market-rate investments or only investments made using endowment funds.

We use the term ***program-related investments*** (PRIs) to refer only to investments that meet IRS requirements. (Investments made by private foundations that further their charitable objectives and for which earning financial returns is not a significant purpose.) Program-related investment is sometimes used more broadly in the field to refer to all mission investments with below-market-rate financial returns, but as it is the one term in this area that has a legal definition, we use it in the strictest sense.

Mission investing is a specialized subset of ***social investing***, the general practice of considering social or environmental factors in investment decisions. Social investors include individuals, foundations, pension funds, corporations, and educational endowments. The nonfinancial factors considered reflect the values of the social investor but may not necessarily be tied to the investing organization's core mission. For example, a university endowment that avoids tobacco stocks is taking social factors into account, but is not making a mission investment.

There are three major social investing approaches: ***screening*** (also referred to as ***socially responsible investing***), ***shareholder advocacy***, and ***proactive, targeted investments***. Screening considers social, environmental, or governance criteria in selecting publicly traded securities, either directly or through mutual funds. ***Negative screens***, such as avoiding tobacco companies, prevent a foundation from owning stock in companies with operations or products that conflict with its values. Negative screens may avoid a conflict, but do not necessarily result in investments that advance the foundation's mission. ***Positive screens***, such as targeting companies that have strong environmental records, may result in mission investments if the screening criteria are tied to the foundation's mission.

Owning stock in a company can provide a foundation with the opportunity to undertake shareholder advocacy – through dialogue with corporate management, shareholder resolutions, and proxy voting – in order to influence the corporation's behavior. Foundations are increasingly using the leverage that their existing stock portfolios provide to advance their social and environmental concerns, at some times reflecting general social values and at other times reflecting the foundations' specific missions.

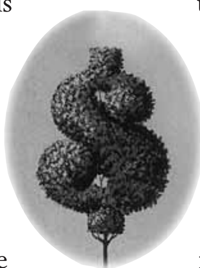
Proactive, targeted investments are investments in enterprises that directly further the foundation's values or mission, such as a loan to a grantee, or a venture capital investment in a solar energy company. Our research focused primarily on this category, where the intention to advance a mission was most evident. *–M.K. & S.C.*

There are many reasons why foundations are not pursuing mission investing with the same degree of vigor and imagination as they are pursuing unconventional investments like hedge funds and private equity. Most foundations do not have staff with the combination of program and financial experience that is necessary for finding and managing mission investments, and the compensation incentives for those who do manage a foundation's investments are based solely on financial returns, not social returns. Foundations are also hindered by the limited number of mission investment opportunities, the paucity of outside investment advisers who understand mission investing, and the lack of reliable performance data for benchmarking the social and financial returns that mission investments provide. A misunderstanding of fiduciary duty – thinking that it limits a foundation from taking more risk or less return in pursuit of its mission – has also left many foundation boards skeptical of the entire idea.[5]

More foundations are doing more mission investing than ever before. Despite this activity, the impact of mission investing often falls far short of what it could be.

The Experimental Stage

Nevertheless, our research clearly shows that more foundations are doing more mission investing than ever before. Despite this activity, the impact of mission investing often falls far short of what it could be. That's because the majority of foundations that make mission investments are still at the early, experimental stage. (See chart at right for the stages of mission investing.) These foundations may have made mission investments over a period of time, but typically only in small amounts or on an infrequent basis. Though they may seek out individual investments, rather than simply waiting to be asked, they often have not yet revamped their program strategies to incorporate mission investing as a core philanthropic tool. In addition, they often focus only on below-market-rate investments and do not use their endowment assets for mission investing.



Because these foundations are still experimenting with mission investing, they have not yet restructured their operations to support this approach. As is the case in most foundations, their program staff and finance staff remain in two distinct operations that rarely communicate with one another. Mission investments are usually managed by program staff without the full benefit of the finance staff's expertise and assistance. As a result, financial tracking and reporting often are lacking. Indeed, many of the foundations in FSG's study had difficulty providing the full financial results of their mission investments. Moreover, because their investments were not tied to grantmaking strategies, hardly any foundations were able to report on the social impact of their investments.

Although the foundations in the experimental stage of mission investing are doing more than most foundations, our research found that they are not yet treating mission investing in the same strategic manner as their grantmaking. As a result, their mission investing may increase social impact, but they are not fully exploiting its potential.

One foundation that is in the experimental phase of mission investing is the Grand Rapids Community Foundation, in Grand Rapids, Mich. The foundation's mission is to "build and manage the community's permanent endowment and lead the community to strengthen the lives of its people." The foundation has $225 million in assets, of which only $1.4 million is in outstanding mission investments, all in low-interest loans to nonprofits. The foundation began making mission investments in the early 1980s with a series of small (typically under $25,000), zero-interest "recoverable grant" loans to grantees using program funds. The loans were made in response to requests by grantees rather than as part of a proactive program strategy.

The foundation began making larger mission investments in 1994, guaranteeing a $200,000 loan to Dwelling Place, a local nonprofit community development corporation that builds affordable housing. The foundation knew that Dwelling Place had strong financials and capable management, so it considered guaranteeing the loan to be low risk. The foundation's board, however, was unfamiliar with mission investments and spent considerable time debating whether to provide the guarantee. In the end, the loan was repaid on time and the guarantee was not called upon.

As the Grand Rapids Community Foundation gained experience with mission investing, it was willing to experiment in bolder ways. In 2004, the foundation made a $1 million loan at 2 percent interest to Lighthouse Communities, a nonprofit community development corporation, to help create a loan fund for home improvements and lead paint removal. This time, the foundation initiated the idea, knowing that some of

Stages of Mission Investing

The Experimental Stage

1) Make mission investments on an irregular basis, often in small amounts and in response to grantee requests
2) Draw mission investment dollars from program funds or from specially segregated endowment funds
3) Invest mostly in low-interest or no-interest loans to nonprofit grantees
4) Lack dedicated staff or consistent internal processes that combine financial and program expertise
5) Often fail to rigorously track financial performance and social impact data

The Strategic Stage: Integrated Mission Investing

1) Incorporate mission investments into program strategy, proactively seeking investment opportunities and aligning them with grants to achieve complementary objectives
2) Dedicate a significant portion of program funds or endowment funds to mission investments
3) Move beyond low- or no-interest loans to other types of financing for nonprofit organizations
4) Assign dedicated staff to manage the mission investment portfolio and put in place processes to coordinate both program and finance staff
5) Track financial and social results, using the same social impact criteria for both investments and grants

The Strategic Stage: Leveraged Mission Investing

1) Implement integrated mission investing
2) Hire staff with a combination of investment and social sector skills
3) Make mission investments in for-profit or hybrid enterprises, often at near-market-rate returns
4) Use mission investments to leverage market forces and influence the behavior of other investors or businesses

its donors were interested in neighborhood development. Because of the foundation's leadership, eight banks provided an additional $2 million to the Lighthouse fund at a low interest rate.

Although these mission investments have met all financial and social expectations, and the Grand Rapids Community Foundation has become more proactive in using this tool, the foundation has not yet developed a strategy for future mission investments, nor has it changed its operations or staffing structure to support an ongoing mission investment program. This foundation's experience is typical of the large majority of the foundations in FSG's study: Despite having had a number of successful experiences with mission investing over many years, most foundations have remained in the experimental mode for decades without moving beyond low-interest loans to grantees or graduating to a more strategic and integrated approach.

Integrated Mission Investing

Some foundations have advanced beyond experimental mission investing to the next level – *strategic mission investing*. There are two facets to strategic mission investing. In the first – *integrated mission investing* – foundations change the way they manage mission investments by fully integrating them into their overall program strategy and internal operations. In the second – *leveraged mission investing* – foundations change the types of investments they make, adding for-profit businesses to the mix and deliberately leveraging market forces. Although foundations can pursue these two facets of strategic mission investing independently, they achieve their greatest impact when they bring the two together in a unified strategy.

The distinguishing characteristic of integrated mission investing is that foundations treat mission investments as a substantial and inseparable part of their program strategy from the very beginning of the program initiatives. They make frequent mission investments and dedicate significant funds to their mission investment portfolios. They have designated one or more foundation staff members to manage these investments, although they may still depend on outside consultants to negotiate and structure individual deals. And the staff person charged with managing mission investing works closely with the foundation's investment staff and with each program area to identify opportunities where investments might be paired with or substituted for grants.

One foundation that has adopted integrated mission investing is Meyer Memorial Trust, a $650 million private foundation based in Portland, Ore. The foundation's mission is to "invest in people, ideas, and efforts that deliver significant social benefit" to the region. Meyer Trust had made a number of mission investments in the past, but it had not done so in a consistent or planned fashion. Beginning in late 2005, the foundation began to increase the volume and sophistication of its PRI program, and in 2006, the foundation determined that its mission investing should be fully integrated into its overall program strategy. The foundation

also decided to increase the amount of money it commits to mission investments. More than 20 percent of its 2007 grantmaking budget is allocated to PRIs – a larger amount than the foundation invested in its first 20 years of existence. In addition, the foundation is in the early stages of investing in market-rate mission investments, committing $10 million to several deals in the past six months.[6]

Meyer Trust decided that it would concentrate its mission investments on two initiatives: affordable housing and restoration of the Willamette River Basin. To help create more affordable housing, Meyer Trust lent $375,000 to the Portland Housing Center to fund a down payment assistance program. In so doing, the foundation accepted higher levels of risk and lower financial returns than commercial lenders, enabling low-income home buyers to obtain millions of dollars in mortgages for which they would otherwise not have qualified. The foundation is also helping nonprofit housing corporations explore the feasibility of housing sites – such as drawing up construction plans, drafting funding proposals, getting zoning approvals – by making predevelopment loans available through a nonprofit loan fund that Meyer Trust capitalized with a $1 million loan at a 1.5 percent interest rate. Meyer Trust is exploring the concept of capitalizing a statewide housing preservation and acquisition loan fund. The foundation expects to complement these PRIs with technical assistance grants to nonprofits active in affordable housing and community development corporations, especially in rural areas. Meyer Trust will also evaluate opportunities to provide financially sustainable tenant support services through a combination of PRIs and grants.

In its initiative to restore the Willamette River Basin, grantmaking plays a critical role, but PRIs are also integral to Meyer Trust's strategy. The foundation will use grants to assemble a coalition of funders, policy advisers, and stakeholders to help catalyze a coordinated restoration of the river, which has become too polluted for swimming or fishing. The foundation will use PRIs to lend money to environmental organizations at below-market interest rates for the acquisition of land and water rights. The loans will be repaid from government funding, private contributions, and the subsequent sale of conservation easements. These loans enable the nonprofits to move quickly in acquiring property to protect the basin before they have assembled all of the necessary acquisition funds.

To ensure that its PRIs and grants are aligned, Meyer Trust's CEO Doug Stamm assigned Ann Lininger, a lawyer and a former program officer, to manage the foundation's PRI portfolio. She works closely with program staff and also gives periodic reports to CFO Wayne Pierson, who assesses the financial soundness of the investment and determines whether it qualifies as a PRI.

Meyer Trust has fully integrated mission investing into its program strategy and internal operations, increasing its impact beyond what grants alone would have accomplished. By relying primarily on low-interest loans to nonprofit organizations, however, Meyer Trust has not harnessed the leverage that comes from applying for-profit market forces to solving social problems. Its recent market-rate investments in private equity funds are the foundation's first major forays into what we call leveraged mission investing.

Leveraged Mission Investing

When used in an integrated fashion, mission investments enable foundations to achieve impact in ways that grants could not. The most far-reaching impact of all, however, comes when foundations use for-profit market forces to create social change – in what we call *leveraged mission investing*.

This form of strategic mission investing has been slow to catch on because it requires foundations to think differently about social change. The traditional view is that nonprofits address social problems and businesses do not. Increasingly, however, businesses are coming to see the social dimension of their endeavors as a key competitive factor.[7] Nike, for example, has developed a comprehensive set of corporate responsibility goals that are integrated with all aspects of its business, including its labor practices, shoe design, and energy use. (See "15 Minutes" interview with Hannah Jones, Nike's vice president of corporate responsibility, on p. 29.)

At the same time, foundations are beginning to pay more attention to the interplay between economic forces and social problems. Poverty, housing, healthcare, and many other core social issues that the nonprofit sector addresses are fundamentally failures of market capitalism to deliver desirable social outcomes. These failures occur because conventional investors weigh the risk and time horizon of an investment against the expected financial returns, without taking into account any accompanying social benefits or detriments.

Foundations, on the other hand, are in the business of spending money to achieve social benefits. Their calculation of risk and reward can and should be different from that of conventional investors. The most powerful use of strategic mission investing is when foundations use their capital to create incentives, reduce risk, and invent new financial instruments in order to leverage for-profit markets to achieve social objectives.

Foundations can leverage their investments to achieve desired social benefits in a variety of creative ways. They can, for example, help stimulate the creation of a new market, like microfinance. When microfinance was just beginning, conventional investors were not interested in funding it because they believed that the risk of lending money to

poor people in poor countries was greater than the potential earnings when the loans were paid back. Foundations stepped in and provided the initial capital for microfinance institutions. Now microfinance is attracting billions of dollars from conventional investors – a clear example of how foundation money can help achieve social goals via market-based solutions.

Foundations are in a unique position because they are the only organizations that control large pools of investment capital that are dedicated to broad social purposes.

Foundation money can also help create new companies that have strong social goals but modest financial prospects. One example is Waste Concern, a hybrid for-profit/nonprofit organization based in Dhaka, Bangladesh. The company's plan was to hire slum dwellers to collect the piles of garbage rotting in the city's streets, separate out the recyclables, compost the rest, and sell the compost as organic fertilizer. No commercial financing was available for such a speculative concept, but after persistent efforts the founders persuaded the Lions Club to donate land for composting and the United Nations Development Programme to subsidize the costs of building a facility capable of handling 3 tons of garbage per day. Today, Waste Concern is a profitable company employing thousands of people who recycle the garbage created by nearly 1 million residents. The firm recently partnered with a Dutch company to build a 700 ton per day composting facility that will handle waste for 3.6 million people and save more than 90,000 tons of CO_2 annually.[8]

Only a few foundations have used financial leverage in this way. The $300 million F.B. Heron Foundation, based in New York, is one example. Despite its modest size, Heron has achieved an impact far disproportionate to its resources by leveraging 24 percent of its endowment to advance its mission of helping build wealth for low-income families and communities. The foundation supports community-based organizations that advance homeownership, support enterprise development, increase access to capital, and reduce barriers to employment in impoverished urban and rural communities. Seventy percent of its mission investments earn market-rate returns, yet all are aligned with or directly further the foundation's program goals.

One market-rate investment that Heron has made is in the Yucaipa Corporate Initiatives Fund, a private equity fund that invests in companies that are located in, serve, or employ people from low-income communities. The fund's goal is to create attractive investment returns while advancing the flow of private equity into underserved communities. In 2004, for example, Yucaipa and another firm acquired Piccadilly Cafeterias, saving it from bankruptcy and preserving close to 6,000 jobs, many of them in low-income communities in the southern United States. (See "Private Equity, Public Good," on p. 52, for a further discussion of how private equity investing can benefit low-income communities.) Preserving these jobs kept many Piccadilly workers from falling into poverty.

Heron has also pioneered the Community Investment Index, a positively screened investment fund that selects publicly held companies that do an outstanding job of supporting low-income communities through workforce development, wealth creation, and corporate philanthropy. Working with Innovest Strategic Value Advisors and State Street Global Advisors, Heron has committed its own capital to test the index and, after its positive performance to date (a 15 percent return in 2006), hopes to attract other institutional investors to this new fund.

Heron did not jump into mission investing. Like many other foundations it began in an experimental mode, and steadily increased its level of commitment as the foundation's expertise and comfort level grew. Heron created a new position – vice president for investments – to manage its mission investing. The foundation hired Luther Ragin Jr., a senior executive with an entrepreneurial spirit and an extensive investment background, to fill the post.

Heron also developed a deliberate practice of cross-fertilization between its investment and program staff, so that investment staff gained an understanding of the foundation's program strategies and impact, while program staff received training in financial analysis and underwriting. Not all of the original program staff felt comfortable with this new way of working, and some left the foundation. Today, program and finance staff work together on mission investments, with program officers often suggesting potential investments, and investment staff lending expertise to the assessment and structuring of the transactions.

FSG's study found numerous other examples of foundations that have, on occasion, used their capital to offset risk, experiment with new financial instruments, and leverage for-profit enterprises to achieve social change. Very few, however, have built leveraged mission investments into their institutional structure as deeply as Heron has.

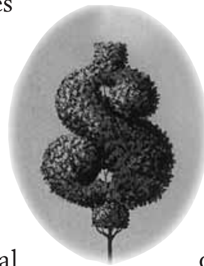
Inspiring More Mission Investing

Market-driven solutions cannot cure all social ills, but they can

create positive social change in many areas. Foundations are in a unique position to create and use these solutions because they alone control large pools of investment capital that are dedicated to broad social purposes. In contrast, hospitals, universities, and cultural institutions can use their endowments to support only their particular institutions. Individual donors depend on their investments for their livelihood. And corporations must justify their use of capital to their investors and earn a competitive return.

Foundations must realign their organizational structures to bring program expertise to the investment side and investment expertise to the program side.

If foundations want to make the best use of their endowments and mandates, they should develop a strategic approach to their mission investments. Using mission investing effectively, however, requires foundations to change the way they do business. Board members and foundation staff must recognize that for-profit enterprises also contribute to social solutions. They must thoroughly understand not only the nonprofit options for intervention, but also the impact of commercial enterprise on the social issue to be addressed. They must move beyond their usual spheres of influence, developing new kinds of partnerships with financial institutions and conventional investors.



Foundations must also realign their organizational structures to bring program expertise to the investment side and investment expertise to the program side. This may require recruiting new staff or hiring consultants who bring this unusual combination of perspectives. Foundations must also coordinate impact evaluation and financial reporting processes to enable tracking of progress toward both program and investment objectives.

At the same time, the spread of strategic mission investing will also require changes external to foundations. A robust and efficient marketplace of investment options for mission investing does not yet exist. The sector needs new investment intermediaries that offer foundations easy participation with low transaction costs in a wide range of investment vehicles targeted toward specific programmatic objectives. People with financial and business expertise must be recruited into the sector. Nonprofits must develop the financial discipline and appetite for investments as well as grants. And better ways of measuring social performance and benchmarking financial returns must be found.

Neither the internal nor the external changes will happen all at once. Instead, they will evolve. The more foundations create demand for strategic mission investments, the more others will develop a robust roster of investment offerings. This will make mission investing easier, leading more foundations into the practice. And as mission investing becomes more mainstream, foundations will attract staff and develop the internal processes necessary to support them, as well to benchmark each other.

A few foundations are leading the way. The Annie E. Casey Foundation is one, having committed $100 million to mission investing. At the most recent Council on Foundations conference in Seattle, Casey's president, Douglas W. Nelson, along with leaders from the F.B. Heron Foundation and Meyer Memorial Trust, called on foundations that are new to mission investing to commit 1 percent of their assets to mission investments, and those that are already involved to commit at least 2 percent of their assets.

Were the 50 largest foundations to reach this 2 percent target, they would invest an amount totaling more than $3.6 billion.[9] This seems like a very modest goal compared to more than $500 billion in U.S. foundation assets, yet it would go a long way toward developing a more mature marketplace for mission investing. What matters just as much as the amount invested, however, is whether foundations make those investments in a strategically integrated and leveraged way. If they do, foundations will have an even greater impact on solving the world's problems. □

1 Jed Emerson. "Where Money Meets Mission." *Stanford Social Innovation Review* (Summer 2003): 28-47; F.B. Heron Foundation. "New Frontiers in Mission-Related Investing" (2004).
2 The report, *Compounding Impact: Mission Investing by U.S. Foundations*, may be downloaded without charge at www.fsg-impact.org.
3 Foundations approach the risk of mission investments in different ways. Some view mission investments as true investments, expecting low risk and market-rate returns; others use grant dollars to make risky investments with little due diligence and no attempt to collect on delinquencies.
4 Communfund Institute. "Commonfund Benchmarks Study 2007 Foundations Report," 13 June 2007.
5 Mark R. Kramer. "Foundation Trustees Need a New Investment Approach." *The Chronicle of Philanthropy*, 23 March 2006.
6 Meyer hired FSG to develop its new strategy. FSG has also consulted for other foundations mentioned in this article, including F.B. Heron and Grand Rapids, on a variety of projects.
7 Michael E. Porter and Mark R. Kramer. "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility." *Harvard Business Review*, December 2006; Mark R. Kramer and John Kania. "Creating Game-Changing CSR." *Stanford Social Innovation Review*, Spring 2006.
8 See www.wasteconcern.org for more information.
9 Based on Foundation Center data for 50 largest U.S. foundations, March 2007.

MISSION INVESTING ASSET CLASSES

Type of Investment	Example	Median Investment ($)	% of total dollars committed by foundations
DEBT			
1. CONDITIONAL INVESTMENTS			
a. Loan Guarantee	A foundation focused on the arts guarantees a loan from a bank to a nonprofit theater to purchase a building, enabling the nonprofit to secure a lower interest rate.	1,000,000	6.2
b. Recoverable Grant	A foundation focused on health makes a grant to a healthcare social enterprise with an agreement that if the social enterprise reaches profitability milestones, it will repay the grant.	47,000	0.1
2. DEPOSITS			
a. Insured Deposit	A foundation focused on regional economic development invests in a market-rate CD at a community development bank.	100,000	1.0
b. Linked Deposit	A foundation focused on improving the lives of low-income people invests in a below-market-rate CD at a community development bank with an agreement that the funds will be used to provide below-market-rate loans to businesses providing jobs to low-income people.	3,250,000	0.4
3. LOANS			
a. Loan	A foundation focused on women's rights makes a loan to fund a microfinance institution that provides microloans to female entrepreneurs.	500,000	43.7
b. Line of Credit	A foundation focused on land preservation gives a credit line to a local land trust to finance periodic purchases of land.	625,000	0.4
c. Loan Fund	A foundation focused on education invests in a loan fund that gives money for charter school facilities.	500,000	1.1
4. FIXED INCOME INVESTMENT			
a. Bond	A foundation focused on food and agriculture invests in a bond issued by a development bank for rural farm cooperatives.	N/A	0.0
b. Bond Fund	A foundation focused on regional economic development invests in a bond fund that includes community development bonds.	2,391,000	1.0
c. Mortgage-Backed Securities	A foundation focused on affordable housing invests in a security backed by a pool of loans to low- and moderate-income borrowers to purchase homes.	N/A	0.0
d. Other Asset-Backed Securities	A foundation focused on helping low-income workers improve their credit invests in a security backed by a pool of credit card accounts for this demographic group.	N/A	0.0
EQUITY			
1. REAL ESTATE			
a. Direct Real Estate Investments	A foundation focused on human services buys a building and rents it out at below-market rates to a group of human services nonprofits.	2,900,000	36.2
b. Real Estate Fund	A foundation focused on housing invests in a real estate fund for purchasing and developing residential real estate for low-income people.	1,250,000	0.2
2. PUBLIC EQUITY			
a. Direct Public Equity Investments	A foundation focused on environmental protection purchases shares of a company that produces environmentally friendly products.	N/A	0.0
b. Public Equity Fund	A foundation focused on human rights invests in a screened mutual fund that includes only companies with strong human rights and labor relations records.	1,806,000	1.9
3. PRIVATE EQUITY			
a. Direct Private Equity	A foundation focused on environmental protection makes an early stage direct investment in a private company developing clean energy technology.	50,000	1.7
b. Private Equity Fund	A foundation focused on economic development invests in a private equity fund targeting companies in low-income areas.	2,000,000	2.0
c. Venture Capital Fund	A foundation focused on medical research invests in a venture capital fund that funds early stage biotech companies.	875,000	3.0

N/A = not applicable