Consumer Health Foundation

Assessing Awareness About & Interest in

Impact Investing in the DC Region

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Summary

With a DC regional presence and grantmaking portfolio, the Consumer Health Foundation (CHF) envisions a region and a nation in which everyone lives a healthy and dignified life. Working at the intersection of health equity, racial equity and economic justice, CHF has been engaged in socially responsible investing, using positive and negative screens on our endowment, for nearly a decade. CHF has also engaged in impact investing through program-related investments made to two intermediaries more than 15 years ago. However, we recently began to explore how to engage more intentionally in impact investing, defined as “investments made into companies, organizations and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return,” specifically in the DC region. We have come to believe that impact investing can be an important financial tool that foundations and philanthropies can use to support their missions, using endowment and/or program dollars. Wondering if and how others thought about and engaged in impact investing, CHF decided to carry out a research project by interviewing other philanthropies and foundations in the DC region to learn from their understanding of and experience with impact investing.

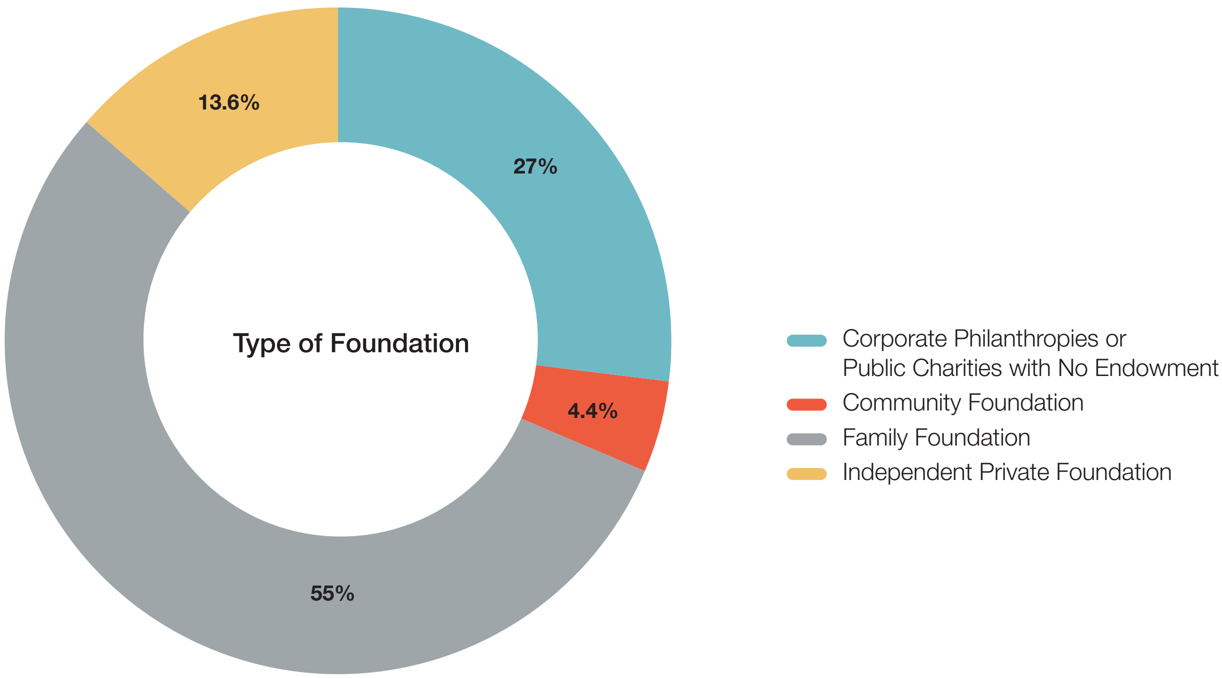
After interviewing representatives from 22 philanthropies and foundations in the DC area, CHF found sufficient interest to merit further thought and work to strengthen the field of impact investing in our region. The findings of this research project suggest that philanthropies and foundations are interested in understanding and experimenting with impact investments -- provided they can be supported in this process by a network of like-minded experts and peers. Further, impact investing is a new field that is still developing its term definitions, business practices and relationships with both investors and investee organizations. To this end, philanthropies and foundations have a potential role in developing the field itself, so that impact investing offers opportunities to make financial investments that yield a social return consonant with their own organizational mission and values.

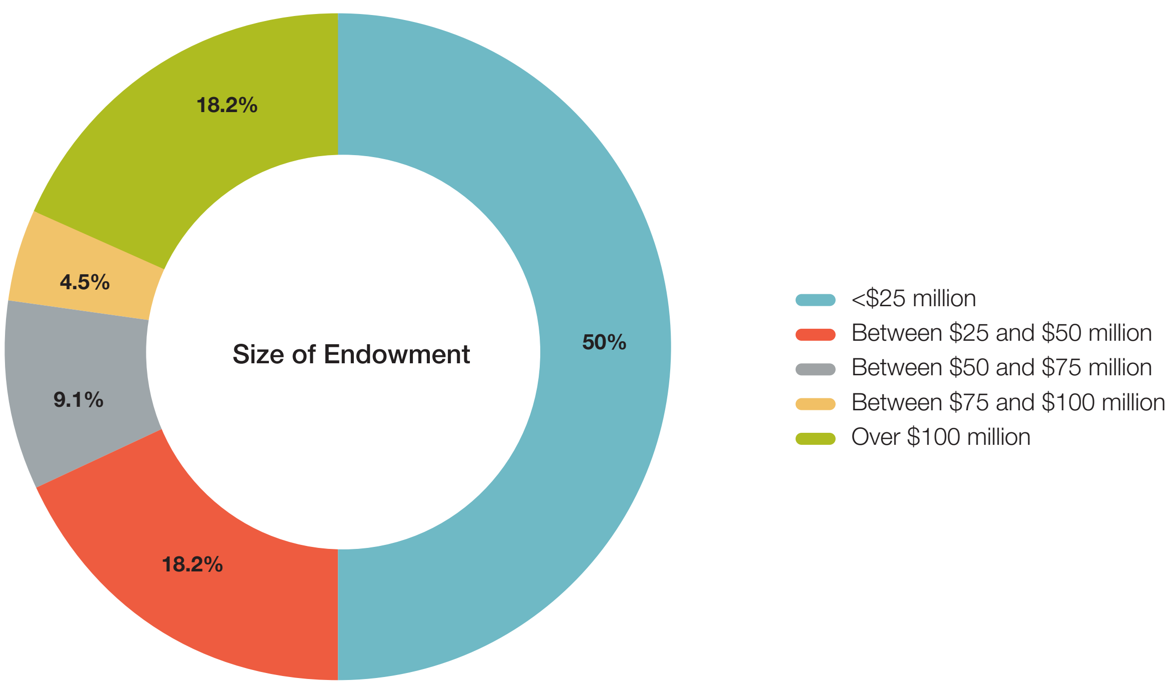
Approach and Respondent Profile

Between February and March, 2017, CHF conducted 22 telephone interviews of foundation and philanthropy representatives using an interview guide that had been reviewed externally by experts in impact investing. Those interviewed were invited to participate in the research project in several ways: by invitational emails and/or phone calls to members of the Washington Regional Association of Grantmakers (WRAG), by referral from other foundations and by direct invitation extended at meetings. Below is a profile of the foundations interviewed by CHF.

- Of the 22 philanthropies and foundations, six represented corporate foundations or public charities with no endowments, one represented a community foundation and 15 represented private, endowed foundations. Of those 15 private, endowed foundations, 12 identified themselves as family foundations and three as independent foundations.
- All but one of the philanthropies and foundations interviewed were members of WRAG.
- Of the 22 philanthropies and foundations, nine reported a full and part-time staff of more than five (excluding consultants) and 13 reported a full and part-time staff of five or less.
- Of the 22 philanthropies and foundations, 13 reported as having undergone a recent strategic change in their work. The primary reason for that change (reported by six respondents) was a change in the composition of the Board (for family foundations this often meant including the next-down generation on the Board) or the executive leadership of the foundation. Three respondents reported a programmatic change in response to the external environment, including the recent change in administration following the election.
- The size of endowment ranged from $0 (for public charities or corporate foundations) to $482 million. The 22 organizations interviewed have a total of $1.58 billion in endowed assets with 11 having assets of less than $25 million (including 5 corporate foundations or public charities with no endowment), 4 having assets between $25 and $50 million, 2 having assets between $50 and $75 million, 1 having assets between $75 and $100 million and 4 reporting over $100 million dollars in assets.

Foundations Interviewed by Foundation Type and Endowment Size





Limitations of this Research Project

All research projects have limitations to them, which may influence the findings and conclusions of the research. In this research project, respondents were recruited primarily from amongst members of WRAG. While some attempts were made to include non-WRAG members in the project, it was mostly WRAG members who agreed to be interviewed, reducing the randomness of the sample. In addition, a preponderance of respondents represented family foundations, large and small, whose missions and interests are guided by private, family interests and priorities rather than the "public good." Third, respondents were self-selected, contacting CHF to indicate their willingness to be interviewed about impact investing. Other foundation representatives with no interest in impact investing did not ask nor agree to be interviewed. For these reasons, while the findings and conclusions reflect the respondents' thoughts, views and experiences, other perspectives may be absent from this report and the respondents interviewed may not reflect the true nature of or interest in impact investing that is currently present in the field.

Findings

Respondents were asked a series of eight questions, some which had multiple parts, in phone interviews that lasted from 20 to 40 minutes. The questions were designed to discover:

1. the current level of engagement in impact investing
2. the preference of mission-related investments (MRIs) or program-related investments (PRIs)
3. the characteristics of impact investing that were more important
4. the social issues that were priority areas for investment
5. barriers to engaging in, or engaging more fully in, impact investing in the DC region and
6. how foundations learn about impact investing.

Current level of engagement in impact investing

Half of the respondents (11) indicated that they felt they were already engaging in some sort of impact investing, ranging from using positive and negative screens on their endowment to PRIs to direct investing in the Washington DC area.[1] Nearly all of those who reported they were not engaged in impact investing indicated that their organizational culture/internal readiness was the primary barrier to engaging in impact investing. This lack of internal readiness was often linked to not understanding well enough how the world of impact investing worked, especially at the Board level, and not having a readily available avenue for gaining more knowledge.

1 Positive and negative screening of investments is most often associated with socially responsible investing (SRIs) rather than mission related investing or impact investing. Socially responsible investing promotes the public good, in general, while mission related and impact investing supports activities directly related to the investor's mission or purpose.

Knowledge about impact investing

When asked to rate their level of knowledge about impact investing, between a low of 1 and a high of 7, nine respondents rated themselves as having “medium” knowledge (3 or 4) while eight respondents rated themselves as having a “high” level of knowledge (5 or 6). Five rated themselves as having “beginner” knowledge (1 or 2). No one gave themselves the “expert” rating of 7. Regardless of their level of knowledge, 16 indicated interest in learning more about impact investing in the DC region, perhaps through peer counseling or by turning to an “honest broker” who could inform them about impact investing without having a specific impact investing product to promote. Those who felt they had more advanced knowledge had all engaged in self-study, ranging from consulting with other foundations to attending webinars and/or conferences to conducting web-based research. Those who gave themselves a higher rating of knowledge were engaged in MRI and/or PRI investing, and engaging in impact investing was identified by several respondents as a way to gain more knowledge about the field.

MRIs vs. PRIs

Questions were posed to determine the use of endowment dollars to engage in mission-related investing compared to using program dollars (e.g., dollars carved from the endowment or grant dollars) to engage in program-related investing, Only one respondent indicated current conscious involvement in MRI investing.[2]

Twenty respondents indicated that they expected that impact investing would generate

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2 Mission-related investments (“MRIs”) and program-related investments (“PRIs”) are two distinct tools available to private foundations to further mission. MRI investing uses endowment dollars because it is considered primarily as a financial investment. Under IRS rules, PRI investing counts towards the foundation’s 5% payout requirement, and therefore can be considered as program dollars spent in a given tax year. At times, a foundation may “set aside” a specific amount of endowment dollars that can be invested in PRIs, which generate a lower return. Even so, PRIs are treated distinctly from MRIs on the foundation’s tax return. “While PRIs must primarily serve a charitable purpose and in many respects are treated similar to grants for tax purposes, an MRI is fundamentally a financial investment rather than a grant and must meet applicable prudent investor standards like more conventional investments.” (source: Levitt, David. “Unscrambling MRIs and PRIs” in Philanthropy Journal. April 5, 2011. Found at https://www.adlercolvin.com/pdf/DAL’s%20Article%20(00319112).PDF)

a lower financial return, which would be offset by an expected social return on the investment. Three respondents were clear that any impact investments would need to generate financial returns that were competitive in the open market. For these three respondents, the expectation of a lower economic return presented a barrier for engaging in impact investing. In all three cases, this was the clear guidance coming from the Board and/or senior leadership. Several respondents expressed a need for guidance from the Board in terms of how much in endowment dollars could be set aside for impact investing (under the assumption it would generate a lower return).

Key Characteristics of Impact Investing

When asked to prioritize amongst four key characteristics of impact investing (1. Intentionality, 2. Expectation of economic return of the principal, 3. Returns ranging from below market to market rate and 4. Impact Measurement), Intentionality (investing with the forethought or intention of having a positive social or environmental impact) was the clear priority (15). A few respondents (4) coupled intentionality (forethought) with social measurement (the outcome or results) as the priority. Nearly all the respondents that prioritized intentionality indicated that they expected a lower financial return on their impact investing portfolio. A subset of those prioritizing intentionality indicated that they understood that impact investing ("patient money") was a long-term prospect and would not yield measurable social or environmental returns over the short run. On a scale of 1 to 7, the average rating for the importance of Intentionality of the investment was 5. Interestingly, the average rating for the importance of Impact Measurement was also 5, indicating an equal level of importance by rating, although Intentionality was verbally identified as more important.

Priority Areas for Impact Investing

When asked about what social issues were prioritized by the foundations (1. economic opportunities/wealth building, 2. access to quality health/education/housing, 3. healthy community development and 4. the environment), 11 respondents prioritized health/education/housing, while two prioritized economic opportunity and another six combined the two categories of health/education/housing and economic opportunity under the rubric "social safety net." One respondent added the arts as an additional category. Another indicated interest in identifying investment management firms led by people of color as a priority. A third prioritized the environment.

Barriers to Impact Investing

Eleven respondents identified "organizational culture/internal readiness" as the primary barrier that kept them from engaging in, or more fully in, impact investing. It was clear that, if the Board was not interested in impact investing, staff readiness was irrelevant. At the same time, the pathway for increasing Board interest in impact investing was not always clear, except for family foundations. Several respondents indicated that the upcoming "third generation" leaders of family foundations were much more interested in impact investing that the founding or second generation family trustees. Five indicated that "Development of a Strategy" and/or "Capacity to Manage" the investments were the biggest barriers. One identified liquidity issues as an important consideration. One had engaged in PRI investing in the DC area and did not receive the expected social return, so the PRIs were considered as a failure. One respondent found the challenge of identifying investment firms led by people of color as a barrier. One indicated that identifying/vetting the investments was the biggest barrier and two identified all of the above categories as barriers to engaging in impact investing.

Communication about Impact Investing

Surprisingly, most of the respondents only had vague memories of hearing about impact investing opportunities in the DC region. Of those who did remember hearing about impact investing in the DC region, WRAG and Enterprise Community Partners (regarding the housing note) was the most often cited communicator. When asked where one should turn to learn more about impact investing, several respondents mentioned WRAG. Other sources mentioned were the Community Foundation of the National Capital Region (CFNCR), the Case Foundation, the Annie Casey Foundation and national foundations. Only one respondent mentioned turning to an investment advisory firm for information on impact investing in the DC region.

Discussion

While "organizational culture or internal readiness" was the most cited barrier for engagement, this issue was most often cited with a need for education about impact investing. Engaging the Board was the biggest barrier, and in smaller foundations, a Trustee often served as the investment advisor for the foundation. Other stakeholders who could benefit from education are senior leadership, including the CEO and the CFO. One respondent suggested educating non-profits, to ready them to become recipients of PRIs.

Another route to creating receptivity at the Board level was to **engage with the next generation of family members**, since the younger generation was cited as already expressing interest in impact investing. At the same time, several respondents expressed reluctance to turn to individuals or groups who had a vested interest in impact investing, usually because they had an investment opportunity to promote. They were seeking information and advice from an **honest broker.** Though many could not identify who that honest broker would be, several named WRAG, the CFNCR, Case Foundation, the Annie Casey Foundation and other national foundations as organizations that they would turn to for advice.

Another form of education named by a few respondents was **trying out impact investing**, while others wanted to **learn from the experience of their counterparts** at other local foundations. Several respondents indicated that their expertise in impact investing came from their experience and a couple of others indicated that engaging in impact investing was how they would educate themselves. Perhaps both education and experimenting with impact investing would also help other foundations who do not feel they have the capacity to engage in impact investing in DC understand that there are low maintenance, low risk opportunities available to them already. Along these lines, one respondent suggested **creating a report on impact investing** in the DC region, with case studies from foundations who have engaged in impact investing describing their experience, both the successes and the failures.

A third issue, especially related to investing in the DC area, was the **inability to identify viable investment opportunities**. While the majority of respondents were willing to accept a lower financial return on their investment, this was because of the social return benefit that they would receive in its exchange. While most respondents verbally identified the intention (forethought) of engaging in impact investing to be the most important characteristic, when tallying the numerical prioritization, measuring social returns (results) was revealed to have equal importance.

Developing a strategy for impact investing seemed to have cross-cutting implications. In part, this involved **receiving clear Board guidance** about what to invest in and how much money was available for impact investing. In part, developing a strategy related to **identifying viable investment opportunities** for the foundation. In part the expressed desire was for **impartial, unbiased expertise** to help the foundation develop its strategy, and then, possibly help troubleshoot to ensure that the social return was received.

Finally, several respondents acknowledged that **impact investing is a new field itself**, and it is still developing its term and definitions, ways of doing business and ways of working with both investors and investee organizations. We also know that **measuring social returns is still a work in process**, with few reliable indicators for social priorities such as racial equity, for example. But there is interest on the part of several foundations in understanding impact investing and in experimenting with impact investments, provided that they can be supported in this process by a network of like-minded experts and peers. Other field-building work that could enhance impact investing in the DC region include supporting non-profits to help build their capacity as PRI recipients and, related to this, creating an information bank for foundations wishing to engage in impact investing but do not know how to find viable opportunities for themselves.

Conclusions and Recommendations

This research project has confirmed that philanthropies and foundations with expressed interest in impact investing are seeking a clearinghouse with impartial, unbiased expertise that will:

1. Provide educational opportunities for philanthropic leaders as well as NGOs and other entities that would benefit from PRI investments

2. Organize peer to peer support activities, so that philanthropies and foundations can benefit from the experience of their peer organizations.

3. Facilitate the identification of viable investment opportunities

4. Help develop strategies for philanthropies and foundations wishing to engage impact investment and

5. Bring together the voice and power of philanthropy to help shape the field of impact investing itself, so that investment opportunities truly reflect the underlying values and priorities that philanthropies and foundations are furthering with their program dollars.

Clearly there is an opportunity to grow the level of interest and engagement in impact investing, more broadly and also directed to the Washington DC area.