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# Mission investing and the philanthropic toolbox

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**Abstract**

This article explores the growing field of mission investing among foundations in the United States, understood as a relatively new tool in the philanthropic toolbox. We define the field of mission investing and explore how a foundation's endowment assets can be leveraged to meet mission goals across social and environmental issues facing society. We also place mission investing in the broader context of socially responsible and responsible investments. We then treat foundation specific concerns in implementing mission investing, and in measuring its value. Finally, we conclude with a brief analysis of the role mission investing may play in current discussions over philanthro-capitalism, recent calls for a more ''business-like'' philanthropy, and related trends.


*Keywords:* Mission investing; Philanthropy; Responsible investment; Philanthro-capitalism; Endowments

## 1. Introduction

The communities and environments that foundations serve are in critical need of resources and the financial crisis itself has provided an impetus for foundations to re-examine philanthropy and foundations' role as institutional investors. US foundation endowments are down on average 30 percent after the great recession. With the new norm of reduced endowments, and limited resources, foundations are looking for innovative ways to achieve organizational goals beyond traditional grantmaking. The economic downturn may present an opportunity for foundations to broaden their ''philanthropic toolbox'' and the tools available to address some of the most challenging problems of their missions across issue areas such as community development, environment, and infrastructure development.

As institutional investors, foundations are in a position to consider a rigorous investment discipline that integrates investment decisions with careful consideration of their long-term financial, social and environmental consequences. The investment discipline of investing with intent, or targeted investing, is a practice that produces risk-adjusted market-rates of return along with ancillary social and environmental benefits (Hagerman, Clark, & Hebb, 2007). Different types of institutional investors are addressing the opportunities targeted investing can bring to their unique investment practice and organizational goals. For public pension funds targeted investing in the emerging domestic markets is often referred to as economically targeted investing (ETI). For religious pension funds the practice may be referred to as faith-consistent investing.

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While there is a broad range of institutional investors that are engaged in the practice of investing with intent, based on the institutional investors' unique purpose for being and institutional goals, the scope of this paper will be limited to foundation mission-driven investors. Currently, many foundations invest relatively little of their endowments in vehicles that actually support their mission. However, the practice known as mission investing is growing rapidly. Foundations are increasingly investing in products that create social and environmental returns as well as financial returns.

This paper addresses the landscape of mission investing and asks; how can foundations better leverage their endowment assets to achieve their mission? The purpose of this work is to explore how US foundations define mission investing, and how they explore the challenges and opportunities the field represents. As a nascent field the work contributes to defining the concept and practice of mission investing in particular, and placing that field within the broader fields of responsible or socially responsible investment. The paper is organized as follows: the second section deals with the language of mission investing and a review of literature in the field. The third section examines mission investing within the broader context of the family of responsible investing. The fourth and fifth sections assess the actual practice of mission investing by US foundations and the art of measuring social impact. The sixth section examines some aspects of the trajectory of mission investing going forward, and the role that mission investing can play in shaping broader responsible investment markets. We conclude with observations on further questions in the field and future directions for research.

## 2. The language of mission investing

Mission investing (MI), when applied to foundations, is the use of a foundation's corpus (endowment assets) to further the purpose for which the foundation exists. The practice is seen by some foundations as a way to increase the resources they have at their disposal – as practitioners tend to put it, MI leverages the 95% of financial resources that generate the ongoing revenue to support an annual 5% philanthropic disbursement. For some investors, MI is the relationship between a foundation's corpus and its philanthropy – as the F.B. Heron Foundation's Chief Investment Officer Luther Ragin put it in a now iconic statement: "Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes? (Ragin, 2003, p. 1)."

Private, community, and corporate foundations are investing their corpus in a range of investment products that range across asset classes, targeted rates of return, and mission impact areas (Wood & Hoff, 2007). Many of these foundations look beyond their own endowments to consider the collective potential of MI – total assets of US foundations at year-end 2008 totaled over $530 billion, a figure that, while dwarfed by public funds and the bulk of private market investment capital, is still substantial enough to make a categorical difference in foundation activity.[2]

The rationale for mission investing rests on the fact that mission investing offers foundations a wider range of resources to achieve impact. In determining an approach to mission investing a foundation considers the spectrum of mission investments and how their mission and program strategies align across various types of both debt and equity investing. The "Mission-Related Investing Continuum" developed by Luther Ragin of the F.B. Heron Foundation illustrates the spectrum of mission investments available. At each end of the spectrum are varying levels of risk and associated returns – below-market and market-rate. A foundation has the ability to assess opportunities across the entire spectrum and pick investments that make most sense based on an individual foundation's broader mission investing strategy.

The diagram refers to the different investing opportunities across the mission investing continuum Fig. 1. Cash can take the form of market-rate deposits in community development banks and community development credit unions. Fixed income in the form of bonds and other short- and long-term, fixed-return debt instruments that support community and economic development activities (housing, infrastructure and job creation). Public Equity includes funds that purchase stock in public companies using screens for inclusion (positive screening) or exclusion (negative screening) based on social and environmental criteria. Private equity includes investments in unlisted companies and ranges from venture capital investments in start-ups, to mezzanine financing in established companies aiming for a trade sale or public listing, to buy-outs of public companies. Private equity real estate finance products invest in the potential growth in market value of an investment property with specific social investment characteristics. Examples

[2] This figure is based on current total foundation assets, the Foundation Center estimates total foundation assets at year end 2008 totaled over $530 billion – a decline of 21.9% from the previous year: http://foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf.