Mission Investing: Real Stories from Small Foundations

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Mission Investors Exchange, a national membership organization of philanthropic innovators who engage in mission investing, states, "**Mission Investments** are made by foundations and other mission-based organizations to further their philanthropic goals. Mission investments (like impact investments) include any type of investment that is intended and designed to generate both a measurable social or environmental benefit and a financial return."

According to Mission Investors Exchange, the terms **Mission-related Investments** (MRIs) and **Program-related Investments** (PRIs) both fall under the umbrella term of **Mission Investing**:

Mission-related Investments are found on the investment portfolio, or endowment, side of foundations. They are sometimes referred to as Market-Rate Mission Investments. Mission Investors Exchange says that MRIs "are expected to generate a market-rate financial return on investment comparable to an ordinary investment of a similar type and risk profile. They are designed to have a positive impact while contributing to the foundation's long-term financial stability and growth, and can be made across all asset classes."

Program-related Investments – also known as Below-market Mission Investments – are made on the grantmaking side of the foundation. Mission Investors Exchange says that PRIs "are primarily made to achieve programmatic rather than financial objectives. Private foundations use below-market mission investing by making PRIs that are eligible to count against the 5% payout that foundations are required to make each year in order to retain their tax-exempt status. PRIs are defined by the IRS tax code and must be made primarily to further the foundation's charitable purpose, must lack any significant investment purpose and may not being used for electioneering or lobbying." PRIs can be made using any asset class, so funding can be done in a variety of ways, from a loan or a renewable line of credit where an agreement is signed outlining principal repayment and interest payments throughout the life of the loan, to an equity stake to scale an innovative product or service.

PRIs are defined by the IRS tax code and must be made primarily to further the foundation's charitable purpose

According to Mission Investors Exchange,

> *Community foundations and other public charities make below-market, or concessionary, investments, and although many practitioners refer to them as PRIs, strictly speaking they are not, as the 5% annual payout required of private foundations is not required of community foundations and other public charities.*

> *What 'non-PRI' below-market mission investments have in common with the PRIs private foundations make is that they all are concessionary, made at terms more favorable than the investee could otherwise secure from a commercial lender/investor.*

HOW IS MISSION INVESTING USED?

Perhaps the best way to understand how useful these valuable tools can be is to examine some real-world examples:

Kristen Cullen – Foundation Associate for the **HRK Foundation** – notes that,

> *Twenty percent of the HRK Foundation's portfolio is invested in MRIs. There are a number of funds where MRIs can be invested and make a big difference, both in social and environmental impact and for the foundation itself. The HRK Foundation invests in several of these, including Equilibrium Capital, Generation, and KBI Water Strategy.*

Cullen additionally noted that, in the case of Program-related Investments, each loan at HRK is a bit unique. In their case, PRIs are primarily used for funding affordable housing, art, and community development.

The returns from the MRI activity help fund the PRIs that they are able to offer

In contrast, **Amy Hyfield** of the **O.P. and W.E. Edwards Foundation** notes that they participate in Mission-related Investing by holding shares of Calvert Funds, which provide mutual funds that invest in socially and environmentally responsible companies, and CDs with banks or credit unions doing business in low income neighborhoods. They have a special pool of money that is used solely for MRIs and PRIs and, in fact, the returns from their MRI activity help fund the PRIs that they are able to offer.

Predominantly, they focus their PRIs, or loans, in **three primary areas**:

The first is for **affordable housing**. For example, the foundation currently holds a loan with a local resident owned community. This community needed loan assistance, coupled with conventional financing, to purchase the land on which their homes are situated. In addition, they also hold a loan with a housing development corporation aimed to help them with the construction of community space within their development, which houses low-income farmworkers in Oregon.

Second, Amy states, they will occasionally offer **construction loans** for nonprofit organizations seeking to build or remodel existing facilities.

Finally, at times they will offer **bridge loans** to help with cash flow, especially when organizations are working with government funding that requires reimbursement.

The process each foundation goes through to decide whether and how to make a PRI can vary greatly. In the case of the O.P. and W.E. Edwards Foundation, Hyfield states that the process generally follows this path:

We only make loans to organizations that we already have a relationship with, so the due diligence has already been done on that end

> *Usually the organization approaches us and we start a conversation about their needs. If we can't make a grant, we may offer them a loan as an option. We only make loans to organizations with which we already have a relationship, so the due diligence has already been done with regards to the organization. We understand that there is some risk in making these types of investments. We try to make sure they have a reasonable plan to pay us back. We want these organizations to be successful and we want to help them as much as possible to reach their goals, but we would like to recover the principal so that we can make further investments. It is a long-term investment in a lot of cases and we don't usually loan out a whole lot more than we would grant which keeps the risk lower.*
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> *In our conversation, we will work out terms for the loan – how much they need and can reasonably pay back; the interest rate, which is always below market; the length of the loan; how often they will make payments: monthly, quarterly, annually. Then we need to get our foundation's board approval as well as approval, via a board resolution, from the non-profit accepting the loan. This is an absolute requirement. We have a fairly simple promissory note and that is it. Everything gets signed and we can write them a check.*
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> *Maintenance is fairly easy from our end. We often do interest only loans to start with so we receive and receipt interest payments. We are usually open to re-negotiate loan terms and length of the loan if needed after the initial loan period. Basically this amounts to writing a whole new loan agreement. At this point we usually require that they pay back interest and principal on a regular basis. When all is said and done, we close out the loan and give them paperwork that says they are all paid up.*

HRK Foundation provided this case example:

> *We have a revolving line of credit (credit enhancement) that we have extended to a local organization. The loan range approved can fall between $10,000 and $100,000 with an interest rate of 2%. The loan agreement is five pages plus a signed promissory note. A written request for an Advance is required and a loan is made within three business days after such receipt. Within 30 days of receiving funding, the organization must present a timeline demonstrating their efforts to raise the funds needed to repay the loan. The requested loan needs to fall within the guidelines outlined in the contract. In this case, the loan is used to swiftly*

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purchase historical artifacts that will benefit the organization and would be out of reach without this funding.

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As illustrated by these examples, the ways in which PRIs are used and the steps organizations take to use them can vary significantly. They are an extremely useful tool for projects that might normally fall short of funding. Basically, they help everyone to truly work together. **Exponent Philanthropy** considers PRIs to be particularly effective for (1) long-term, multiyear PRI loans to help with major building projects and (2) short-term PRI loans to help with a cash flow crisis, or with an emergency need.

GETTING STARTED

First, it's important to remember that **Mission Investing** is not only about money. It's about finding a way to use your funds so that they create a positive impact while at the same time creating a financial return for your organization. Here are some questions you may want to consider before moving forward:

- **What are we hoping to achieve?**
- **Why are we investing?**
- **Which tool is right for our specific goals, and how will it be effective?**

Second, do your research. Where will your money make the most impact *and* the most sense for your organization? It's important to remember that aligning your investments with your philanthropic goals is at the heart of what makes **Mission Investing** such a powerful tool. At this stage, it's important to remember that there's no need to choose *only* Mission-related Investments or *only* Program-related Investments. Creating a cohesive mix of all the philanthropic tools at your disposal can create even more impact on and advancement for your charitable mission. Talk to other organizations that are already involved in **Mission Investing**, ask how it has changed their funding efforts, or what *hasn't* changed. There's nothing like learning from the experience of others about what works and what doesn't. And don't forget to assess the risk; is the return really worth it when you consider *all* of the factors?

Third, pay attention to your investments once they're made. It's not enough to simply "dump" money into a fund, you need to make sure it's doing what it's supposed to; that is, providing both a social impact and a reasonable financial return. If both of these goals are not being met, then is it really a wise investment?

Finally, remember that there is no "rule of thumb" to govern your choices in **Mission Investing**. All organizations are different, and they work by different sets of guidelines and for different purposes. In the case of low-rate loans, which are Program-related

Investments, it might be best to begin where you're familiar. As Hyfield mentioned, it's often easiest – and safest – to work with organizations you already have a relationship with. By starting here, you know with whom you'll work for your investment due diligence and you're likely not undertaking any exceptional risk. Regardless of how you choose to implement these tools, remember that they should all be done within the scope of federal law.

It really does pay to do your homework

When considering other forms of **Mission Investing**, it really does pay to do your homework. There are a number of fantastic resources for just this purpose – such as Mission Investors Exchange or Exponent Philanthropy. Intermediary organizations, such as those HRK Foundation uses, can help pool and invest funds, which can save individually organizations a great deal of money that otherwise might have been spent on investment advisors or poor investment decisions.

Foundant Technologies provides the powerful online Grant Lifecycle Manager (GLM) system, and leads the industry in customer service. The Bozeman, MT based company provides software to nearly 700 clients across the United States and Canada.

ADDITIONAL RESOURCES

1. Mission Investors Exchange: https://www.missioninvestors.org/
2. Global Impact Investing Network: http://www.thegiin.org/
3. The Forum for Sustainable and Responsible Investment (USSIF): http://www.ussif.org/
4. Exponent Philanthropy: http://www.exponentphilanthropy.org/resources/
5. Equilibrium Capital: http://www.eq-cap.com
6. Generation: http://www.generation.com
7. KBI Water Strategy: http://www.kleinwortbensoninvestors.com/