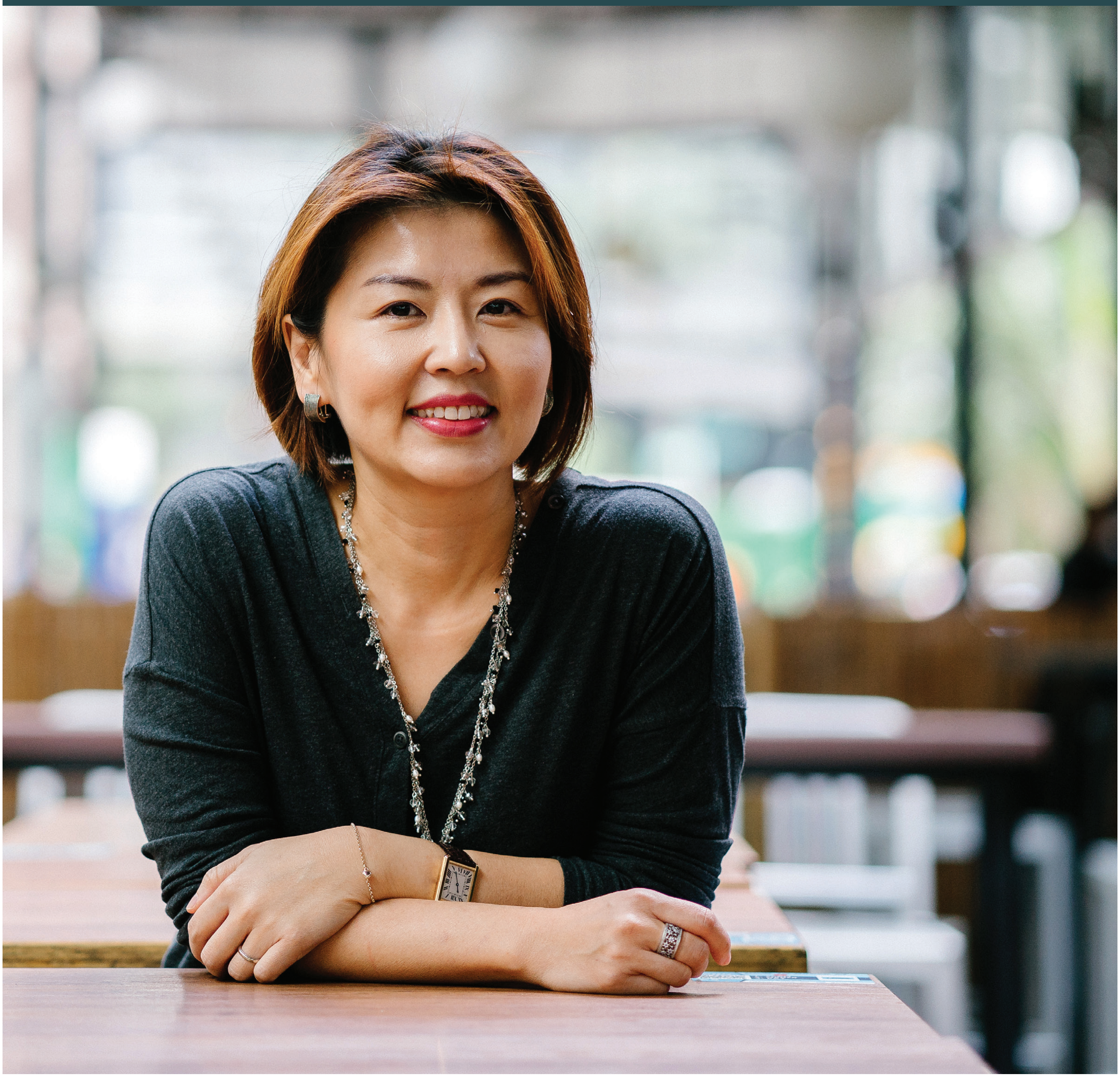
INVEST *for* BETTER

Amplifying your Philanthropy through Impact Investing

A WORKBOOK FOR GETTING STARTED



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Welcome

Traditionally, investing and philanthropy have served two separate purposes: (1) invest to make as much money as you can without regard for its social or environmental impact, so (2) you can dedicate more of the earnings and asset growth for philanthropy.

Impact investing has disrupted this paradigm, and provided philanthropists with new avenues for amplifying their charitable goals.

The purpose of this workbook is to help philanthropists – individual donors, donor-advised fund holders, or foundation trustees – identify possible ways to use investing to increase their impact on the people, places, and issues they care about. It is intended to open up possibilities and provide an initial framework on which you can build going forward.

What is impact investing?

Put simply, impact investing is any type of investment intended to generate positive, measurable social and environmental impact alongside financial returns.[1]

Among the possibilities, impact investing includes the following:

- Investments in socially responsible mutual funds or Exchange-Traded Funds (ETFs), often in conjunction with shareholder activism
- Investments in socially responsible fixed income products such as community and green bonds
- Impact-oriented private equity or venture capital funds
- Loans or equity investments in impact-oriented individual companies
- Investments in Social Impact or Development Impact Bonds
- Investments in impact-oriented real estate or other real assets such as water or timber
- Loans or guarantees to nonprofit organizations

The financial return for impact investing can be just as good as any traditional investment, or you can trade off financial return for deeper social impact. The investee can be a nonprofit or for-profit, an enterprise, or a fund. The source of capital can be your personal assets or trust, a donor-advised fund, or a foundation. (See Appendix A.)

1 "Impact Investing," The GIIN, Accessed September, 2019, https://thegiin.org/impact-investing/.

Impact Investing Examples

Investor A believes that the world's prosperity is dependent on educating girls and getting more household income into the hands of women. Through his donor-advised fund, he makes donations to a number of girls schools in Africa. With the corpus of that fund, he has begun to make loans and guarantees to micro-enterprise funds that provide women access to capital to start or expand small businesses. He knows that even a small business like chicken farming or cell phone time rental will enable a mother to send her daughters to school.

Investor B focuses her philanthropy on strengthening her community by making donations to support local parks, cultural institutions, and education. Discouraged by the decline of her small city's once vibrant retail district, she has decided to invest in creating a for-profit café and bookstore, and to partner with many of the cultural and educational nonprofits to create a hub of robust programming to draw people in.

Investor C is passionate about the issue of climate change and has devoted most of her philanthropy to supporting national and international organizations that raise awareness about the issues and advocate solutions. Frustrated by the resistance of policymakers, she is turning to the capital markets. She has instructed her investment managers to divest out of all fossil fuel stocks and to identify early stage companies or funds that are focused on breakthrough solutions to climate change. She is participating in shareholder activism wherever she can, asking companies to report on their carbon footprint and enact solutions. Even her fixed income portfolio is targeted towards municipal bonds aimed at renewable energy.

How can impact investing amplify your philanthropic goals?

- **You can deploy more resources to social change.** Instead of making gifts or grants that are a small percentage of your assets (foundations typically grant just 5% of their philanthropic assets), you may invest some or all of the remaining assets for social benefit. Moreover, these funds can be recycled and reused as the financial capital is returned.

- **You can expand your portfolio of tools for social good.** While philanthropy can be an effective way to pilot a program or innovation, philanthropy is not big or powerful enough to solve most social problems alone. Impact investing uses the power of the marketplace to achieve scale, and more financially sustainable solutions.

- **You can get leverage.** Philanthropic donations or concessionary capital may help an enterprise build capacity and/or de-risk the investment so that it is attractive to the enormous reservoir of market-based capital. "Blended investments" are those that are underwritten by a range of capital, including philanthropic, concessionary, and market rate.

- **You can bring integrity to your investments.** You can have the satisfaction that comes from aligning your investments with your values and social goals as well as ensuring they do not undermine them.

Ready to get started?

Here are 6 questions to explore in the planning process.

You might want to start by writing down your initial thoughts and questions. Then do some research and consult with knowledgeable peers, financial advisors, and/or your donor-advised fund sponsor to explore additional possibilities. The aim is to develop plans for both learning and action.

The worksheets on the following pages prompt you to explore the questions:

1. What are your philanthropic goals?
2. What source(s) of capital do you want to use for impact investing? How much capital do you want to start with?
3. What are your financial goals for each capital source?
4. What impact investment solutions or tools might help you achieve your philanthropic and financial goals?
5. How will you decide which impact investments to pursue? What criteria and due diligence processes will you use?
6. How will you measure the success of your investments?

The final worksheet is intended to help you summarize the action steps you will take.

Appendices provide detail on:

- Considerations for impact investing from different capital sources
- Examples of impact investing strategies towards two specific philanthropic goals

QUESTION 1

What are your philanthropic goals?

You are excited about the opportunity to amplify your philanthropy through impact investing. The first step is determining which philanthropic goal(s) you want to focus on.

A. **What issues do you care about and what outcomes are you trying to achieve through your philanthropy? What is your geographic scope?**

B. **Which of these philanthropic goals do you think could be effectively addressed through market-based solutions? (e.g., investing in companies that sell products such as low-cost healthy food, or that adopt policies such as gender pay equity)**

QUESTION 2

What source(s) of capital do you want to use for impact investing? How much capital do you want to start with?

A. What source(s) of capital do you want to begin with?

Depending on your circumstances, your capital source choices may include any of the options listed below. You will likely have different financial goals for different capital and will certainly have different legal, tax, or regulatory parameters. See Appendix A for more information.

Check all that apply:

- ☐ Personal/general capital
- ☐ Trust over which you have control
- ☐ Retirement account
- ☐ Donor-advised fund
- ☐ Foundation endowment
- ☐ Other

B. Is there anyone you need to get agreement from in order to activate these sources of capital?

C. How much of these capital sources do you want to start with?

Some investors like to begin with a smaller percentage of their capital or a percentage of a specific asset class, such as private equity or debt. Others seek to go all in and integrate impact into all of their investments. Your choice will depend upon both your social and financial goals.

_____ % of my personal capital into impact investing

_____ % of my trust

_____ % of my retirement account

_____ % of my donor-advised fund

_____ % of my foundation endowment

_____ % of other ______________________________

QUESTION 3

What are your financial goals for each capital source?

An important step in qualifying the universe of possible impact solutions is to clarify your financial return goals.

For each capital source you want to use, what is your financial return goal? What is your timeframe for realizing your return?

Consider if you seek market returns or if you are willing to invest patient and/or high risk capital in the pursuit of greater social impact. Many investors are more likely to take higher risks with their philanthropic capital over their general or retirement capital.

CAPITAL SOURCE	FINANCIAL RETURN GOALS			TIMEFRAME		
	MARKET	CONCESSION IS FINE	RETURN OF CAPITAL IS FINE	LIQUID	MEDIUM TERM	LONG TERM
Personal Capital	☐	☐	☐	☐	☐	☐
Retirement	☐	☐	☐	☐	☐	☐
Donor-advised Fund	☐	☐	☐	☐	☐	☐
Foundation	☐	☐	☐	☐	☐	☐
Trust	☐	☐	☐	☐	☐	☐
Other	☐	☐	☐	☐	☐	☐

QUESTION 4

What impact investment solutions or tools might help you achieve your philanthropic and financial goals? How will you develop a pipeline? (i.e., people or networks who refer investable products to you)

Now you get to the fun part – identifying possible categories and specific impact investments that match your philanthropic and financial goals. This will be a process that likely involves consultation with others.

A. Are there specific asset classes that you think will best meet your goals? Or ones you want to avoid?

For example, are you most interested in investing in single enterprises or funds, private or public markets, nonprofits or for-profits? Your choices will depend on such factors as your impact goals, risk and return profile, and interest in active engagement. Your financial advisor can help you navigate the pros and cons of each choice. See Appendix B for impact-focused examples of different types of assets.

Check all that apply:

ASSET CLASS

- ☐ Public equity
- ☐ Public fixed income
- ☐ Private equity
- ☐ Private debt
- ☐ Angel investing
- ☐ Real assets
- ☐ Cash and cash equivalents
- ☐ Social finance bonds

INVESTEE TYPE

- ☐ Fund
- ☐ For-profit company
- ☐ Nonprofit organization

B. How will you develop a pipeline of possible investments?

Finding the right investments requires both clarity on goals and access to a robust pipeline of possible investments. For this, you will want to confer with others who have deep expertise in impact investments.

Which of the following will you use?

- ☐ Financial advisors
- ☐ Peers with experience
- ☐ Peer networks of impact investors
- ☐ Nonprofit intermediaries
- ☐ Donor-advised fund sponsors or foundation staff
- ☐ Online impact investing platforms
- ☐ Nonprofits you support with grants
- ☐ Other

QUESTION 5

How will you decide which impact investments to pursue? What criteria and due diligence processes will you use?

Now that you have clarified your broad impact and financial goals, and are developing a pipeline of investable opportunities, how will you choose the specific investments to commit your capital to? How closely will they connect to your philanthropy?

A. What are your criteria?

You will likely use both impact-oriented and financial criteria. Be prepared for your criteria to evolve as you gain more experience.

IMPACT CRITERIA EXAMPLES:

- ✓ Scales innovative solutions
- ✓ Benefits new markets
- ✓ Engages community in governance
- ✓ Creates more gender equitable practices
- ✓ Other

FINANCIAL CRITERIA EXAMPLES:

- ✓ Minimum investment amount matches my capacity
- ✓ Fund/investment duration matches my timeframe and liquidity needs
- ✓ Fees are reasonable and mission aligned
- ✓ Other

B. What will be your due diligence process?

Will you do the due diligence yourself or engage with partners such as financial advisors, intermediaries, other investors, or donor-advised fund sponsors?

QUESTION 6

How will you measure the success of your investments?

A hallmark of impact investing is that the investor is intentional about measuring the social and/or environmental impact. These metrics are typically far more complicated than the single financial return of traditional investing. The field is seeking to develop standard metrics across all types of investments[2], but it is ultimately up to you to identify your own key success measures. While the metrics ideally connect directly or indirectly to your impact goals, some metrics may be about your learning.

Examples of metrics you could use:

- Number of people's lives improved (e.g., got access to healthcare, obtained housing, were educated, got high quality jobs)
- Alignment of an investment or your portfolio with one or more of the United Nation's Sustainable Development Goals[3] (e.g., reduction in food waste or affordable clean energy)
- Relative performance against specific Environmental, Social, or Governance (ESG) benchmarks produced by third party providers[4] (e.g., carbon intensity or gender balance)

2 See The GIIN, IRIS, and The Impact Management Project for examples.

3 "Achieving the Sustainable Development Goals: The Role of Impact Investing," The GIIN, Accessed September, 2019, https://thegiin.org/research/publication/sdgs-impinv/.

4 While more benchmark data standards are being developed all the time, please note that data is often self-reported and not verified.

Summary of Action Steps

Congratulations! Now that you have explored the key questions, it's time to start taking action. You may want to start small, take incremental steps, and learn from your experience. Or you may be ready to plunge in and develop and implement a comprehensive plan now!

- ✓ Determine your impact goal(s)
- ✓ Identify the capital source(s) you will use
- ✓ Allocate your initial budget/% of capital
- ✓ Determine your financial goal(s) and parameters
- ✓ Develop a network to produce a pipeline of investable deals
- ✓ Define your criteria for investment selection
- ✓ Develop and conduct a due diligence process
- ✓ Define success metrics
- ✓ Make your investments

Appendix A

Capital Source Options – Considerations for Impact Investing

Most investors have several sources of capital that could be deployed in alignment with their philanthropic values and goals. However, each "bucket" of money will have its own financial purpose and may also be constrained by legal, fiduciary, or organizational requirements. Outlined below are some considerations for investing with different capital sources.

CAPITAL SOURCE	CONSIDERATIONS
Personal capital	• Consider your risk, return, and liquidity needs, and look at investment options that match them. • With complete investor control, this may be some of your most flexible money and can be used for recoverable grants, loans, investments, and guarantees.
Retirement capital – e.g., pension fund, Roth IRA, 401(k) or 403(b)	• Your asset allocation should be appropriate to your age and expected date of retirement. • Depending on the type of plan, you may need approval for changes from Plan Fiduciaries. • Self-directed IRAs offer the most flexibility in terms of the types of investments you can make.
Donor-advised fund capital	• Funds donated to a donor-advised fund are designated for philanthropic use and thus are a natural fit for impact investing. • Impact investing options include recoverable grants, as well as loans, equity investments, and guarantees. • All investment returns must be returned to the donor-advised fund. • Because donors cede all legal control of their contributions to their donor-advised fund sponsor, you will need to conform to any restrictions or requirements of the sponsor.
Foundation capital	• Funds donated to a foundation are designated for philanthropic use and thus are a natural fit for impact investing. • Impact investing options include recoverable grants and program-related investments from your grant-making budget; or loans, equity investments, and guarantees from your endowment. • All investment returns must be returned to the foundation. • Your investments must be consistent with your foundation's investment policy statement and may require board or committee approval.

The information provided here is not investment, tax, or financial advice. You should consult with a licensed professional for advice concerning your specific situation.

Appendix B

Examples of Impact Investment Strategies for Different Philanthropic Goals

Philanthropic Goal A: Reduce the world's dependence on fossil fuels

Some of the investments you could make to amplify your impact include:

- ☑ A fossil fuel-free Exchange-Traded Fund (ETF)
- ☑ A clean energy fund that seeks to bring companies with innovative energy solutions to commercial scale
- ☑ A private debt fund that finances upfront costs of solar installations on commercial and municipal real estate
- ☑ A green bond issued by the World Bank or other institution aimed at increasing energy efficiency or clean public transportation
- ☑ A company or fund that supports sustainable timber harvesting and grassland conservation projects which reduce carbon dioxide releases

Philanthropic Goal B : Improve racial equity at home and nationally

Some of the investments you could make to amplify your impact include:

- ☑ A racial justice Exchange Traded-Fund (ETF)
- ☑ A real estate fund aimed at healthy economic development in inner city neighborhoods and "Opportunity Zones"
- ☑ A venture capital fund that provides early stage financing to minority entrepreneurs
- ☑ Cash deposits into minority owned banks and community finance development institutes in communities of color
- ☑ Online lending platforms that will crowd out predatory lending groups
- ☑ A shareholder resolution aimed at improving a company's board diversity

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Invest for Better is a nonprofit campaign on a mission to help women demystify impact investing, take control of their capital, and mobilize their money for good.

Invest for Better is a project of The Philanthropic Initiative and was created in partnership with key founding partners such as Mission Investors Exchange, Mission Throttle, and the Case Foundation, as well as a Steering Committee of field-building pioneers.

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The Philanthropic Initiative operates nationally and globally, and is housed at the Boston Foundation.