IMPACT INVESTING

AN INTRODUCTION

ROCKEFELLER PHILANTHROPY ADVISORS
PHILANTHROPY ROADMAP

What is impact investing?

For many years philanthropy and investing have been thought of as separate disciplines — one championing social change, the other financial gain. The idea that the two approaches could be integrated in the same deals — in essence, delivering a financial return while doing good — struck most philanthropists and most investors as far-fetched.

Not anymore.

Impact investing, which seeks to generate social and environmental benefits while delivering a financial return, is growing in popularity. A worldwide market in excess of $400 billion is projected by 2020. (See page 8.)

IMPACT INVESTMENTS, DEFINED

Investments made in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

Source: Global Impact Investing Network

Many people like the balance of commerce and compassion that comes with impact investing.

It also offers a broad range of options.

Some strategies emphasize financial return while still seeking to benefit society.

Other approaches put social and environmental impact first while accepting returns that vary from below-market rate to a simple repayment of principal.

Impact investments can be as straight-forward as banking with a community-based financial institution or using a microfinance fund to support entrepreneurs in the developing world. Some of these investments have been around for decades — think of solar power.

But there are pioneering, complicated deals, too — many requiring expert advice, such as putting capital into startup social enterprises or investing in social impact bonds (see page 18).

This guide is part of our *Philanthropy Roadmap* series and is expressly written for donors who may wish to complement traditional grantmaking approaches as they invest their assets to promote change.

Think of it as an introduction to the world of impact investing.

Please note: the guide assumes basic knowledge of financial tools and investment principles.

WHY DOES IMPACT INVESTING MATTER TO DONORS?

Here are three reasons:

1

Impact investing is a powerful tool to leverage philanthropic dollars. Investment returns can be reused over and over again to compound the impact.

2

It allows donors greater freedom and flexibility. They can test innovative ways to achieve a financial return as they seek impact. Both nonprofit and for-profit organizations can be supported.

3

Donors use impact investing to breathe new life into their philanthropic strategy. Many report great satisfaction after incorporating the concept in a redesign of their approach to social and environmental change. (See Omidyar Network case history, page 9.)

GOING ALL IN

ANNIE CHEN

Annie Chen shares something in common with many great philanthropists — "a sense of responsibility for the well-being of others – not just family and community, but humanity as a whole, other living things, and the planet we call home." One quality that sets her apart from many philanthropists, though, is that she feels giving on its own cannot do enough.

A Hong Kong native, Ms. Chen studied and practiced law in the U.S. and Hong Kong for ten years before joining the family office her father established in Hong Kong. Among other things, she had the opportunity to observe and learn from the operations of her family's two foundations focused on Hong Kong and China. When the time came for her to consider her own philanthropic direction, she thought she "would follow the same approach as most in my circumstances do: If you have money and want to do good, you give it away."

In 2008, though, Ms. Chen reconsidered her approach in a major way. She realized that by only focusing on giving, she was not harnessing the full potential of her assets towards creating positive change. After attending conferences, conducting research and learning from impact investing pioneers like Jed Emerson, Ms. Chen grew excited by the tremendous potential in this new field. Realizing that she needed to look at what all of her assets were accomplishing, a sea change occurred in her thinking and approach to her assets.

Ms. Chen established the RS Group within the family office, with a mission to be "a catalytic force in creating a paradigm shift in people's values and priorities so economic growth does not jeopardize human development and environmental sustainability." She committed to move her entire portfolio into sustainable and responsible investments. Unable to find an advisor in Hong Kong with the expertise and track record she wanted, she searched widely and turned to Zurich-based firm OnValues in 2009, who worked with her to align RS Group's investments with her values and philanthropic goals. Since then she has worked closely with them in rigorously sourcing investment opportunities around the world, "blending philanthropic motivations and traditional investment approaches in a disciplined, risk-controlled way with defined targets for both social and financial performance." The RS Group also engages in traditional grantmaking where such support is more appropriate to the cause.

Initially, impact investments were seen as a form of venture philanthropy while the remaining SRI (socially responsible investing) portfolio was perceived as generating financial return, but Ms. Chen's perspective evolved as she realized that they should be viewed as sitting on a blended-value continuum to be managed on a holistic basis. She has focused on established funds with at least a three-year investment track record managed by professional investment firms which have signed the United Nations Principles for Responsible Investment. She has also made global private equity investments, and direct investments within Asia, where liquid opportunities are harder to come by.

Ms. Chen is frank in viewing her family's wealth as both a privilege and a burden. "I have always felt uneasy with the traditional concept of simply perpetuating family wealth through the generations. I believe that private wealth brings with it the responsibility to contribute to the public good, particularly now when the world is facing huge and pressing issues such as climate change, large-scale poverty and resource constraints." Ms. Chen feels that her investments are working towards addressing these issues. She has invested 70 percent of the RS Group's assets in sustainable and impact investments, with 2016 as her target for a full 100 percent alignment.

ANNIE CHEN SUGGESTS THAT THE FIRST AND MOST IMPORTANT STEP FOR DONORS NEW TO IMPACT INVESTING IS FINDING AN EXPERIENCED ADVISOR WITH A SUCCESSFUL TRACK RECORD. SHE ADDS THAT DONORS SHOULD:

Be cautiously ambitious.

Be clear about your intentions and manage expectations.

Focus on what you can achieve in a finite timeframe.

Look for good people, not just good causes and organizations.

Be patient, take time to learn and feed your passion.

Say "no" quickly and say "yes" slowly.

WHERE IS IMPACT INVESTING GOING?

Here are four indications of the growing influence of impact investing:

1

A 2010 report by J.P. Morgan and the Rockefeller Foundation calls impact investing an emerging asset class and predicts a market upwards of $400 billion by 2020.

2

There are signs that the market is growing in both size and sophistication, with a sample of 99 investors planning to commit a total of $9 billion to impact investing in 2013. That's an increase of 12.5 percent on their 2012 investments.

Source: "Perspectives on Progress: The Impact Investor Report," J.P. Morgan and the Global Impact Investing Network (GIIN), 2013.

3

Foundations are beginning to invest endowment money for impact as well as financial growth. This is in addition to program-related investments (PRIs). Altogether, this foundational impact investing is known as "mission investing." (See definitions page 20.) More than 90 U.S. foundations, with assets totaling $39 billion, have pledged to direct at least part of their charitable assets to investments directly related to their missions.

4

A survey of affluent U.S. households found that 50 percent of those surveyed were interested in learning more about impact investing even though only 12 percent had actually made such an investment.

Source: Hope Consulting, 2010

OMIDYAR NETWORK

Pierre Omidyar, founder of eBay, and his wife Pam believe that the power of markets can "create opportunity for people to improve their lives." That's why they started a "philanthropic investment firm," the Omidyar Network, in 2004.

Every year, they forego an estimated $1–2 million in potential tax deductions so they can combine grantmaking and investment outside the normal umbrella of a foundation.

Why?

They believe that scaling innovative organizations can be the best way to achieve impact—and that market forces can be the best way to scale.

In 2013, the Omidyar Network applied the strategy when it invested in Microensure, which provides health, life, crop and other kinds of insurance products to low-income clients in Asia, Africa and the Caribbean. Most of these clients didn't have insurance before.

Microensure began as a nonprofit wing of Opportunity International, and Omidyar supported the effort with traditional grants. Over time, as the enterprise matured, it became clear that there was scope to spin it out as a commercial entity—an exciting, if potentially complex process.

To support that process, the Omidyar Network provided bridge funding—a low-interest loan that offered Microensure flexibility and time to put all the pieces together to make the transition into a commercial venture.

That loan then converted to equity as the Omidyar Network and the International Finance Corporation partnered to make a $5 million investment to spur Microensure's growth, and at the same time, Microensure launched a new joint venture with giant mobile provider Telenor, which will offer Microensure's low-cost, mobile-friendly insurance products to more than 149 million Telenor clients in Asia and Eastern Europe. (When you understand that Microensure's customer base at the time of the deal was four million, the opportunity for increased impact is clear.)

Microensure's transition is a "welcome evolution," according to Omidyar, one that will provide “millions of consumers … and their families a critical safety net over the long-term.” The Omidyar Network remains deeply engaged in the ongoing work of the company, providing human capital in addition to financial investment.

Omidyar’s involvement with Microensure demonstrates the continuum of capital that can be applied to nurture an idea, to bring it to scale, to bridge gaps and to transform it into a sustainable, commercially funded venture.

> “It’s a small price to pay to be able to use the power of the private sector to improve people’s lives on a very large scale.”

PIERRE OMIDYAR, ON THE DECISION TO FORGO TAX DEDUCTIONS SO THE OMIDYAR NETWORK CAN MAKE PHILANTHROPIC INVESTMENTS

IS IT A GOOD FIT FOR ME?

Impact investing can be daunting because it requires both financial acumen and philanthropic issue expertise, a rare combination.

And yet, the field seems to offer great potential.

Virtually any philanthropic issue has an impact investment opportunity associated with it, and virtually every asset class used in a traditional investment portfolio has an impact equivalent.

In an age when social entrepreneurs, technology and connectivity have redefined the potential to improve people’s lives, impact investing seems an ideal vehicle for linking the power of markets with the passion to do good.

SO WILL IMPACT INVESTING BE A GOOD FIT FOR YOU?

The answer depends on your own motivations and values.

It also depends on how well you understand the opportunities before you.

In the pages to come, you’ll get a feel for the variety and potential of different impact investments as well as the range of risk involved. The guide identifies some major pros and cons of impact investing and outlines steps to get started.

But before going any further, a word of caution: rush can bring regret with any investment. Due diligence and risk assessment play just as important a role in investing as they do in giving. In other words, it's always wise to learn before you leap.

And always keep in mind: What are you trying to accomplish?

—

SOCIAL ENTREPRENEUR

Society's change agents, creators of innovations that disrupt the status quo and transform our world for the better.

Source: Skoll Foundation

These leaders come from both the for-profit and nonprofit worlds. They seek game-changing approaches to social and environmental problems.

SOCIAL ENTERPRISE

A mission-driven organization with a market-based strategy. Social enterprises include nonprofits which run income-producing businesses and for-profits which prioritize positive social and environmental impact.

FIRST CARRY OUT DUE DILIGENCE ON YOURSELF

MEYER FAMILY ENTERPRISES

A family office in Napa, California has set the ambitious goal of making all the assets in its for-profit portfolio deliver "positive impact" by 2020. "I believe our goal of 100 percent positive impact is ambitious, but realistic," says winery entrepreneur and philanthropist Bonny Meyer. "The time for holistic thinking, living and investing is now."

To accomplish the goal, Ms. Meyer, together with her staff and consultants, took a long, hard, detailed look in the mirror — thoroughly analyzing the family's investments. Meyer Family Enterprises — or MFE — published its own case history in August 2010 with the following findings: 62 percent of its private investments yielded positive social, environmental and human impact; 45 percent of its public portfolio (containing hedge funds, municipal bonds and mutual funds) delivered positive impact.

MFE defines positive impact as "the sustainability of the organization," according to CEO Patrick Gleeson. "Are they meeting their goals, taking care of the environment and their employees? Are they profitable? Is there diversity among management? Are they managing costs?" The case history can be found here: www.mfenterprises.com/investing-for-impact.

"We wanted the data in hand," says Mr. Gleeson, so the family office could chart a strategy that would yield ongoing impact and profit. "We made a lot of mistakes [in the three years prior to the report]," he says. By being a single investor in businesses unrelated to the family office's expertise (agriculture), MFE learned the hard way that impact investments had to be based on much more than the attractiveness of an organization's mission or its targeted impact. "If the business is not structured or managed properly, the good that it is doing is not sustainable," says Ms. Meyer. Now, the office looks for investment partners — to expand expertise and networks, "to challenge us to think differently" and to diversify risk.

MFE also developed new tools with information gleaned from its own case history. It has a "scorecard" to evaluate its own portfolio and an "evaluation tool," filled out by potential investees and investment partners alike, to examine impact investments before they are made (www.mfenterprises.com/investing-for-impact/hip-check-tool).

Private equity investments hold the strongest attraction for MFE in the impact arena — with renewable energy projects and real estate in Northern California heading the list in 2012. But unlike most big private equity firms, MFE wants to be in it for the long haul. "We don't want our investment to necessarily have an exit," says Mr. Gleeson. "Why not scale the business and look for a dividend."

Ms. Meyer also heads a traditional philanthropy, the Meyer Family Fund. Separate from MFE, it makes grants in education, social and financial empowerment, and spiritual and emotional well-being. This donor-advised fund invests its assets in a traditional way, seeking a market return without conscious regard to impact — an irony not lost on Ms. Meyer who promises a more "proactive" investment strategy for the Fund in the future.

"If the business is not structured or managed properly, the good that it is doing is not sustainable."

CROSSROADS

SOME OPTIONS FOR THE IMPACT INVESTOR

What are the main types of impact investing? What risk will a philanthropist face?

To get you thinking about some possibilities, we've provided examples of investment opportunity categories, ranging from low donor risk and low donor engagement to high risk and high engagement:

LOWER RISK / LOW ENGAGEMENT

COMMUNITY FINANCIAL INSTITUTIONS

This approach can be as easy as opening an account with an institution that focuses on lending in low-income, disadvantaged communities. There are thousands of these entities in the United States. One particular type is called a CDFI, or community development financial institution.

SPECIAL PURPOSE FUNDS

These "intermediary" organizations usually accept charitable funds from donors, then convert them into equity investments, loans and guarantees in social enterprises. Benefits include the adjusted risk derived from being part of a large pool of investors. Disadvantages include limited investor control over implementation.

VARIABLE RISK / LOW ENGAGEMENT

ESTABLISHED MICROFINANCE

Organizations such as Accion International and Blue Orchard offer impact investors a relatively simple way to support entrepreneurs and their small businesses. Risk is dependent on the entrepreneur, but the microfinance umbrella organizations and their affiliates conduct due diligence and monitor loan performance.

IMPACT INVESTING FUNDS

These private equity and debt funds make a range of investments seeking positive social and environmental impact and a financial return. The nonprofit ImpactAssets (www.impactassets.org) offers ratings on impact investment fund managers and the Global Impact Investing Network, another nonprofit, has a searchable database of impact investment funds (www.impactbase.org).

LOWER RISK / HIGH ENGAGEMENT

SHAREHOLDER ACTIVISM

Investors may use their equity stake in a company to attempt to influence its management and policies. The attempt to integrate social values into investor action can apply to corporate social responsibility or specific issue areas. Investors can work individually or in coalition with others, pushing to influence corporate behavior from within.

VARIABLE RISK / HIGH ENGAGEMENT

PROGRAM RELATED INVESTMENTS (PRIS)

By law, these investments are only open to foundations. PRIs are often loans, loan guarantees, deposits or equity investments. The primary purpose of the investment must be accomplishing part of the foundation's mission. Unlike grants, PRIs are expected to be paid back, often with a modest rate of return. (See further definition, page 25.)

DIRECT INVESTMENT

Some philanthropists go to great lengths to set up their own deals. They may want to invest in the project of a social entrepreneur, acknowledging the risk that comes with a promising but untested idea and a new organization. Philanthropists may pursue their own due diligence at significant cost or collaborate with others who have similar interests. In this fashion, they can sometimes build uncertainty into their plans. But a high level of risk is often unavoidable.

SOCIAL IMPACT BONDS

These are contracts that allow the public sector to commission social programs and only pay for them if the programs are successful. These contracts also allow for private investment which only earns a return if the social programs achieve their goals. Social impact bonds can leverage social change and earn a financial return. Risk is often high. (See full definition on following page.)

SOCIAL IMPACT BONDS

WHERE ROI DEPENDS ON DELIVERING COMMUNITY DIVIDENDS

What if the public sector had a way to commission innovative social programs and only pay for them if the programs achieved their desired results?

What if private impact investors could reap a return on investment working in tandem with governmental organizations on such deals?

Welcome to the new — and still experimental — world of social impact bonds.

SOCIAL IMPACT BONDS

A form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population … Private investment is used to pay for interventions, which are delivered by service providers with a proven track record. Financial returns to investors are made by the public sector on the basis of improved social outcomes. If outcomes do not improve, then investors do not recover their investment.

Sources: Social Finance, a U.K. pioneer in social investment, which launched its first social impact bond in 2010.
www.socialfinance.org.uk/work/sibs

In 2012, New York became the first U.S. city to use the concept. Under a private-public-philanthropic partnership, investor Goldman Sachs will profit if recidivism rates among male adolescent offenders at Rikers Island (the city's main prison complex) can be significantly lowered over four years.

The challenge is substantial. Before the program began, nearly half of adolescent male inmates at Rikers reoffended within a year of their release.

Under the deal, Goldman invests $9.6 million dollars with a nonprofit organization (MDRC) which in turn will oversee two other nonprofits implementing the education and counseling program. If recidivism drops 10 percent, New York City's Department of Correction will pay Goldman back in full. If the level of reoffending drops further, Goldman stands to profit by as much as $2.1 million.

Philanthropy played a key part in the deal. Goldman's exposure to risk has been considerably reduced by a loan guarantee of $7.2 million offered by Bloomberg Philanthropies — the mayor's charitable organization. That means if the program fails, and New York City pays nothing, Goldman can lose no more than $2.4 million of its original investment. If the program succeeds and the loan is repaid, the loan guarantee can be used for other social impact bonds by MDRC.

"This promising financing model has potential to transform the way governments around the country fund social programs," said Mayor Michael Bloomberg in *The New York Times*. "We are anxious to see how this bold road map for innovation works."

WHAT ARE SOME PROS AND CONS?

BENEFITS

Donors say they are attracted to impact investing for a variety of reasons including:

RETURN ON INVESTMENT

In general, impact investing allows the impact investor to reinvest the same money in another socially beneficial project or organization. Even a simple return of principal creates philanthropic leverage unattainable through normal grantmaking.

POTENTIAL TO LEVERAGE OTHER INVESTMENTS

Impact investing can provide a bridge between philanthropy and capital markets and, at the same time, create new ways of sharing the risks and rewards. One example is the use of loan guarantees. (See Gates Foundation case history on page 26.)

MORE ASSETS CAN BE ALIGNED WITH PHILANTHROPIC GOALS

Foundations are required by law to disperse at least five percent of their assets each year to achieve charitable goals. The remaining 95 percent of foundation assets traditionally have been focused on seeking market returns. Impact investing allows more of that philanthropic money to pursue social or environmental change.

INVESTORS DON'T WORK AGAINST THEMSELVES

When investments are in line with philanthropic values, donors don't find themselves in the awkward situation of holding public ownership in companies that actively undermine their grantmaking strategy.

CHALLENGES

Donors say other aspects of impact investing can pose difficulties:

INVESTMENTS CAN CARRY SIGNIFICANT RISK

As with traditional investments, impact investments come with various levels and types of risk. For example, some social enterprises seeking impact investment may operate in underdeveloped markets where a business or nonprofit faces the challenge of helping to create infrastructure as well as provide a service. In such cases, the ratio between the cost of due diligence and the investment is often high.

LACK OF DEAL FLOW

In this new industry, the supply of investment opportunities offering scale, impact and financial return often falls short of demand. As a result, impact investors can experience frustration finding deals that fit both their investment criteria and their philanthropic orientation.

LACK OF EXPERTISE

Many financial advisors lack expertise in the social and environmental aspects of impact investing. Many philanthropic advisors lack expertise in making financial investments. A new breed of advisors, with experience in blending philanthropy and investment (as well as legal issues), is still emerging.

INSUFFICIENT RATINGS, BENCHMARKS AND IMPACT MEASUREMENT

The impact investing industry is working on standards for investment performance. But it does not yet have a full set of reliable tools to guide impact investing, particularly as it relates to social and environmental returns. A program funded by USAID and the Rockefeller Foundation called IRIS (Impact Reporting and Investment Standards) works on standardizing the way organizations communicate their performance, making it easier to develop investment comparisons and benchmarks. The Global Impact Investing Network (GIIN) now coordinates the emerging work around metrics.

Sources: Hope Consulting, "Money for Good" 2010,
National Endowment for Science, Technology and the Arts (U.K.),
"Supply and Demand for Social Finance" 2011
Impact Investing, Antony Bugg-Levine and Jed Emerson, 2011

> "Foundations pioneered PRIs nearly 50 years ago and today many more are bringing larger amounts of below-market and market-rate investment capital to the table to create social impact."

COUNCIL ON FOUNDATIONS, 2012

A FEW FOUNDATIONAL FACTS

Impact investing has huge potential in part because it can tap not only money traditionally used for grants, but also the assets that support charitable giving.

To put this in perspective, the Foundation Center says U.S. foundations made grants totaling an estimated $46 billion in 2010 but held assets totaling more than $600 billion.

The investment of foundation assets to obtain a financial return and achieve social or environmental impact is sometimes called "mission-investing," a sub-category of impact investing specific to organizations with a mission.

In a 2011 report, the Foundation Center surveyed 1,200 foundations and found one in seven (14.1 percent) were already engaged in mission investing. That percentage is expected to grow.

Individuals and foundations engaging in impact investment have the opportunity to leverage significant capital from more traditional investors. The Global Impact Investing Network says that PRIs, which are designed to target less competitive rates of financial return, can be structured as guarantees or in the first-loss tranche of co-investments in a way that encourages other investors to bring significantly more capital (8–10 times more) to a project. (See Gates example on page 26.)

MISSION INVESTING

Mission investing is the practice of foundations who invest to advance their missions and programmatic goals. A mission investment can be either a program-related investment (PRI) or mission-related investment (MRI). Private foundations make PRIs as part of their annual distribution strategy. MRIs are risk-adjusted, market-rate investments made from the foundation's assets.

Source: Mission Investors Exchange

PROGRAM-RELATED INVESTMENT (PRI)

Debt or equity investments made by private foundations. They support nonprofit organizations or for-profit companies with the chief purpose of advancing a social mission

Source: Mission Investors Exchange and U.S. tax code

THE GATES FOUNDATION AND KIPP CHARTER SCHOOLS

When does impact investing require no cash up front and the possibility of no expenditure whatsoever?

When it comes in the form of a loan guarantee.

In 2009, the Bill & Melinda Gates Foundation provided a loan guarantee to allow nonprofit charter school operator KIPP to secure a tax-exempt bond issue. The purpose: to build new school facilities in Houston. The money will allow KIPP, which already operates 15 schools in Houston, to serve an additional 7,000 students.

And that's only the first stage of financing. Eventually, the Gates Foundation says it will provide an additional $20 million in loan guarantees to help secure $233 million more in bonds for charter schools in Houston.

The loan guarantees work not only to leverage more money, but also to lower interest rates. As cited in the book *Impact Investing*, by Antony Bugg-Levine and Jed Emerson, the Gates Foundation guarantee enabled KIPP to lower the interest rate of its bank loan by three percentage points, saving the nonprofit $10 million dollars.

Of course, the investment carries risk. The Gates Foundation will have to pay if KIPP defaults. But if the loan is repaid, the foundation will have provided a multi-million dollar value and more than doubled the capacity of these charter schools without spending a single dollar of its grant money.

The Gates Foundation likes the impact investing approach. By the end of 2012, the foundation had committed a remarkable $1 billion for program-related investments (PRIs). It wants to use financial tools such as low-interest loans, loan guarantees and equity investments so it can leverage the foundation's balance sheet to secure financing for organizations and programs within its core interest areas.

EIGHT STEPS TO GET STARTED

1
DECIDE WHAT YOU WANT TO ACCOMPLISH

Look at your motivations and values. Consider how impact investing might take your philanthropy to a new level of effectiveness. What would your issue and geographic focus be? Here are just a few of the possible investment areas: sustainable agriculture, affordable housing, accessible health care, education, clean technology, clean water and financial services for the poor. (The title guide in this series, Your Philanthropy Roadmap, may be of help here—rockpa.org/yourphilanthropyroadmap.) After such a process, you may decide that you are ready to expand beyond grantmaking. If so, it's worth asking: What balance will you strike between financial return and social and environmental impact?

2
INVESTIGATE THE RANGE OF OPPORTUNITIES

Impact investing can be amazingly easy or dizzyingly difficult. Once you have a clear idea of your issue and the organization or the project you want to support, then it's time to start your voyage of discovery. Online resources (see the list at the end of this guide) are just a start. Talking informally with peers in philanthropy can offer significant insights. Site visits to see social enterprises and their projects in operation can also be helpful. Ask yourself: What types of investments are appropriate for my portfolio size?

3

GET SOLID ADVICE—PERSONAL AND PROFESSIONAL

If you think impact investing might be a good fit, appeal to those involved in your family giving. Start a discussion. A common family philanthropic approach often can expand to encompass impact investment as well. (See our guide "Talking with Your Family About Philanthropy" rockpa.org/talking-toyourfamily.) While some impact investing, such as putting money in donor-advised funds, is straightforward, many investment opportunities can present tax challenges and legal hurdles. Professional advice from legal, financial and philanthropic perspectives is critical, especially when considering direct investment.

4

CONSIDER HOW INVESTING CAN DOVETAIL WITH YOUR EXISTING PHILANTHROPY

Do you face philanthropic challenges that an investment might solve more effectively than a grant (say, for instance, a low-interest loan to a nonprofit that wants to purchase office space)? Will your grantmaking issue areas be mirrored in your investments, or is this an opportunity to explore new territory?

5

DECIDE ON A ROLE FOR YOURSELF AND CONSIDER COLLABORATION

Some impact investors see themselves working closely with the organizations they support. While this hands-on approach may be ideal for some, it will be distinctly unappealing for others. Whether you want to make direct impact investments or simply put money in existing funds, it's worth thinking about building the right partnerships to execute your strategy. Ask yourself: Do I want to collaborate with other investors to leverage impact? If so, Toniic and Investors Circle are two examples of groups that enable individual angel investors to work together.

6

BE PREPARED TO BE PATIENT

Effective investing usually relies not just on how we decide to invest, but for how long. The Acumen Fund has popularized the idea of "patient capital." That means: long time horizons for investments, a tolerance of risk and a goal of maximizing social rather than financial returns. (Acumen invests in early-stage enterprises which serve low-income people.) Acumen's approach may not suit your style of philanthropy, but it underscores the importance of finding clarity over a time frame for investment. Setting a time horizon is essential to finalizing an investment strategy. Ask yourself: How do I define risk? When do I expect to see results?

7

THINK ABOUT HOW YOU WILL ASSESS YOUR INVESTMENTS

Impact investors should evaluate performance on both the financial and the social/environmental sides of their investments, according to the Global Impact Investment Network (see Resources). Unfortunately, some people leave it until late in the process — sometimes waiting until after an investment has been made. But thinking about assessment can help tremendously with the strategy and design of any particular investment before you invest. It's worth asking: How can early assessment planning help me find the right balance of expectations for impact and financial return and understand the interplay between those two goals?

8

KEEP ASKING QUESTIONS

Nothing opens up new opportunities like an open-ended question. Here are two key queries as you consider further involvement in impact investing: How will you assess the ability of a potential investee to achieve its social goals? How will you measure your own personal satisfaction — and progress — as an impact investor?

MOVING FORWARD

In 2011, California became the sixth state to pass a law creating a new business entity called a benefit corporation. These new corporations will be able to raise money in the capital markets—and make a profit—even while they seek positive social or environmental impact as their primary aim.

It's all part of a new world where both for-profit companies and nonprofit organizations can be values-driven and market-responsive. As an industry, impact investing is so new that it has not yet found its limits. Innovation and potential characterize much of what goes on, but the industry also requires greater infrastructure, common standards and established ways to collaborate, as well as regulatory oversight.

And what does that mean for you as a potential impact investor?

Expect change. Though the traditional roles of nonprofits, government and free enterprise will continue to operate in many ways as they always have, new opportunities will emerge, and old distinctions will fade. In such a new and evolving industry, nimble and open-minded philanthropists will be rewarded. Donors should accept that they will be learning—and making mistakes—as their experience grows.

> "Ultimately, impact investing can be seen as a tool for generating financial return by connecting investors with the issues they care most about."

LUTHER RAGIN JR.
CEO OF THE GLOBAL IMPACT INVESTING NETWORK (GIIN)

RESOURCES

This guide is by no means an exhaustive overview of the ever-evolving impact investing space. There is much written about this approach, and there are many ways to meet other donors deeply involved in the practice.

Global Impact Investing Network, www.thegiin.org
A nonprofit organization which offers information and resources to investors, including a global directory of impact investing funds (Impactbase), a discussion guide (Assessing Impact Strategy) which lists questions to ask impact investment professionals, and a set of metrics to measure and describe social, environmental and financial performance (IRIS)—see Appendix.

ImpactAssets, www.impactassets.org
A nonprofit financial services firm dedicated to impact investing. It publishes an annual database of experienced private debt and equity impact investment fund managers.

Impact Investments: An Emerging Asset Class (2010) J.P. Morgan & the Rockefeller Foundation

www.rockefellerfoundation.org/uploads/files/2b053b2b-8feb- 46ea-adbd-f89068d59785-impact.pdf)

Impact Investing: Transforming How We Make Money While Making a Difference (2011) Jed Emerson and Antony Bugg-Levine, Jossey-Bass (2011)

Investors Circle, www.investorscircle.net
An early-stage impact investor network made up of individual angel investors, professional venture capitalists, foundation trustees and officers and family office representatives.

Mission Investors Exchange, www.missioninvestors.org
Represents more than 200 foundations and mission investing organizations. Offers workshops, webinars and a library of reports, guides, case studies and investment policy templates. The goal is to share tools, ideas and experiences to improve program-related and mission-related investments. A project of Philanthropy Northwest

Mission-Related Investing: A Policy and Implementation Guide for Foundation Trustees (2008) Rockefeller Philanthropy Advisors. www.rockpa.org/document.doc?id=16

"Perspectives on Progress: The Impact Investor Report," J.P. Morgan and the Global Impact Investing Network (GIIN), January 2013. (http://www.thegiin.org/cgi-bin/iowa/resources/research/489.html)

Solutions for Impact Investors: From Strategy to Implementation (2009) Rockefeller Philanthropy Advisors. www.rockpa.org/document.doc?id=15

Toniic, www.toniic.com
An international impact investor network promoting a sustainable global economy and offering peer-to-peer opportunities to "share, learn together, co-invest and nurture enterprises and funds."

Confluence Philanthropy, confluencephilanthropy.org
A non-profit network of over 200 foundations that builds capacity and provides technical assistance to enhance their ability to align the management of assets with organizational mission to promote environmental sustainability and social justice.

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