

Action Blueprint

Developing the Idea

Tasks

The development, leadership and funding of a foundation's mission-investing program can of course widely vary. Nevertheless help develop a strategy and implementation plan for a mission-investing program, some suggested tasks include:

- Request authorization and secure approval to explore the idea of mission investing.
- Understand the concept of and the approaches to mission investing.
- Identify key tasks in a critical path for determining the feasibility of implementing a mission investing strategy.

Alternatives and Decisions

Leadership for a mission investing strategy can come from a foundation's staff or trustees. In either case, the staff typically leads the development of a business case for mission investing. This requires an analysis of potential investments, articulating investment objectives, establishing a strategy for funding the activity, and finalizing an operating plan. Foundations often retain consultants to help with some or all of these tasks.

Mission investing programs can be launched as a planned portfolio strategy representing some level of committed investment or on a case-by-case basis in response to particular investing opportunities. The Kellogg Foundation's market research suggested that mission investing programs launched without clear objectives tend to generate weaker financial and social performance.

Mission investments may be funded from a foundation's endowment or grants budget as "program-related investments." In practice, program-related investments usually support a charitable purpose and carry a below market-rate of return on a risk-adjusted basis.¹ Such investments must meet all legal criteria set out in the Tax Code of 1969:

1. The primary purpose is advancing one or more of the foundation's exempt purposes.
2. No significant purpose is the generation of income or appreciation of property.
3. No purpose is lobbying or political action otherwise prohibited for private foundations.

The Kellogg Foundation chose to fund its mission-driven investing program entirely with endowment funds because it wanted to test whether and how mission investing could leverage those assets for greater mission impact. The Kellogg Foundation committed \$100 million for investments in enterprises offering social as well as financial return.

¹ Cooch, Sara and Kramer, Mark, Compounding Impact: Mission Investing by Foundations, March, 2007.

By choosing to make mission investments with endowment funds, the Kellogg Foundation is leaving the full amount of the grants budget available for grantmaking. Limiting its mission investing to endowment funds, the Kellogg Foundation will likely select investments offering higher expected financial returns than would be the case for program related investments. Although this approach places a portion of endowment funds directly at-risk, the Foundation is mitigating this risk with investment criteria set out in a formal investment policy, as well as rigorous due diligence and carefully monitoring each investment.

Managing Challenges

The Foundation's CEO, staff, and trustees were ready to test mission-driven investing in 2007, following four or five informal discussions among staff. During this time, staff built market knowledge in three ways:

- Observation of other mission investing efforts and programs.
- Research to assess the market for various types of mission investing.
- Experimental investing using the Foundation's grant funds.

This market knowledge made it easier to move a proposal for mission-driven investing forward when organizational conditions were more conducive, in other words when "the time was right."

Discovery

A foundation can build mission investing skills by making and managing financial investments using grant funds, as the Kellogg Foundation did in its southern African program. The foundation cannot recoup the principal or take a financial return on such grant dollars, but instead can recycle principal repayments and any earnings into grants or program-related investments. Using this technique, when the Foundation was ready to begin its mission-driven investing program using endowment assets, staff could leverage significant market knowledge and relationships garnered under its grants program.

¹ Cooch, Sara and Kramer, Mark, Compounding Impact: Mission Investing by Foundations, March, 2007.