Set: Mobilizing for Action

The mission-driven investing team's second discussion with the Foundation's Board of Trustees and Officers was no less animated than the first. Staged around a presentation made by members of both the U.S. and southern Africa mission-investing teams, the Board continued its dialogue about the benefits and pitfalls of a mission-related investing strategy.

Almost immediately, a debate began on what to name the program. One Board member noted that "mission-*related* investing" was not the right title for this particular body of work. He said that he wanted such investments to *drive* mission not just relate to mission.

The Foundation's Board underscored its desire to use the tool to make positive changes in the lives of people. When its members talked about the goal to realize both financial and mission impact, one Board member commented that if the Kellogg Foundation was going to error at all in this experiment, he would rather it be on the side of serving the mission. While all agreed that mission was critical, the Board members reminded one another that this is an investment strategy that needs to realize market rate returns as well as mission impact. This was a discussion (and tension) that would be revisited time and time again.

With a majority vote, the Board authorized the team who had presented the latest scan data to take yet one more step before they would make their final decision. This time the Board wanted further planning to:

- <u>Address Human Resource Needs</u>
- <u>Develop a Blueprint for Operation</u>

Address Human Resource Needs

Success with mission-driven investing requires a systematic approach that is firmly rooted in reality and based on the best available information. After the first two meetings with the Kellogg Foundation's Board, the team members who had researched the potential of mission-driven investing were ready to prepare a plan to launch the program.

Staffing the program was one of the top issues on their list. Two teams, one for the United States and one for southern Africa, were created to explore the potential of the idea. Many were innovators and creative thinkers who had signed on for the short-run and would eventually need to turn their attention back to their mainstream formal responsibilities. Others were doers who were positioned to provide leadership for implementation if and when the program was approved.

Internal Staff

As the team developed its recommendations for staffing, it tried to heed the advice of foundations that were already active in the field. It looked to build a plan that would be managed by cross-functional teams that included not only program staff, but people with investment and other experience.

The Kellogg Foundation wanted to close the gulf between the program side of philanthropy and the investment and financial side of foundation management. To do this, it sought to involve staff from all three units in the program. The Kellogg Foundation's investment and finance staff's involvement was critical to the success of the project's launch, not just in terms of investing strategy, but also in the development of viable operating plans.

Says Chief Financial Officer La June Montgomery Tabron: "My role in the design phase was to ask: Can we do this? How can it happen? Are we ready and do we have the capacity to make this happen? Our Board looked closely to see that the endorsement was there from the finance team, the investment team, as well as the program team," added Montgomery Tabron. "It made a good partnership for finance, investments and program to take mission-driven investing to the Board together and say, this is something that we want to do. Longer term, I will be an advisor, and my role as the advisor is making sure that we stay true to the purpose—to the Foundation's as well as our Board's requirement for accountability around recording and reporting financially on activities."

Other members of the cross-function team were added as needed. They included program staff with expertise in communications, evaluation, and related program interest areas. The goal was to ensure that the future team had the necessary skills to make the program a success.

External Support

Recognizing that the Foundation could not staff the program totally from the inside, attention also was given to recommending the deployment of external resources. Over the “scanning phase,” the team relied heavily on an outside consultant with considerable experience in mission investing. At the time, the consultant was in the process of forming a new financial advisory firm, which later became known as Imprint Capital Advisors, LLC. The firm, which is dedicated to helping foundations and family offices create and execute mission investment strategies, helped the Foundation develop its overall plan for the program.

Three-tiered Management Design

Ultimately, the staffing plan presented to the board, called for the creation of a **Portfolio Management Team** (PMT). The PMT, comprised of internal and external members, would be responsible for:

- Recommending policies and procedures
- Sourcing opportunities in key strategic areas
- Screening in-bound proposed transactions
- Conducting further research, diligence, and structuring on prospective opportunities
- Identifying, retaining, and working with specialist partners to execute transactions
- Preparing investments for approval
- Implementing the investments.

It is interesting to note that the composition of the PMT helped demonstrate that flexible, cross-functional teams can not only function but *thrive* by drawing on unique staff resources where and when their talents could add the greatest value. As Ted Chen, one of the original thought leaders behind the Kellogg Foundation’s mission-driven investing program explained:

> *When we did initial mission investing work, we wanted to get the fund set up and get the Board to approve that. A lot of us on that initial team were as concerned about the “how” as the “what.”*
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> *By working together as a cross-program team, we demonstrated that we could operate very quickly. We did the turnaround in literally weeks. Not only did we work differently, we also unleashed a tremendous amount of creativity.*
>
> *The process showed that you don’t have to be connected to something for life. For example, I was part of the initial team to do the concept development, but now there’s an implementation team (PMT). I got called to do another task, though I wanted to stay involved. This creates opportunities for others who are adding value now as part of the Portfolio Management Team.*

> *There's a life cycle for a project, and a project leader might be the right person for a time, but different combinations of people move the work forward. I think it's tremendous that we're opening mission investing to all our program areas. Hopefully the investments will be driven from opportunities that program officers and others connected with our work on the ground bring forward.*

Just as the Foundation planned for fluidity in its human resource plan, it also planned for accountability. The design called for the creation of an **Investment Committee** that would have *authority for all investment decisions and ongoing portfolio monitoring.* The committee would be comprised of the Foundation's chief executive officer as well as two program staff, the director of the newly-created U.S.-based mission-driven investing program, and a member of the investment team. Two external members would also be selected based upon their experience and fit with the Kellogg Foundation's mission.

The Kellogg Foundation's Board of Trustees' **Finance Committee** would fulfill *governance and fiduciary functions*. It would complete a proposed system of checks and balances that would ensure the highest level of accountability for the program.

Develop a Blueprint for Operation

During its early scans of the mission-investing field, the Kellogg Foundation had learned that foundations are historically less successful when they start mission investing without a clear set of objectives. Not only does this gap hurt their financial returns, but also their social returns.

The PMT was determined to avoid these pitfalls by mapping out a very systematic approach to mission-driven investing. Members of the U.S. team took the first step by developing a clear investment policy that meshed with the Foundation's core values and mission. The policy was to become a blueprint for investing operations of the Foundation's mission-driven investing program.

The southern African team members developed its mission investing strategy on a parallel track. All grappled with the fundamental issues of how to target investment strategy by *place* and *program*.

The southern Africa team members decided to invest in two or three investment funds in the region run by external investment professionals. It defined broad objectives, strategies, and intended outcomes for its mission investing and then went to work to find potential investment funds aligned with those priorities.

Africa Mission-Driven Investing Program

Commit: $25 million in 2-3 investment of funds

Objective: To demonstrate that social impact and market returns are mutually achievable

Main focus: Agriculture and Rural Development (Art and Cultural Industries, Eco-tourism)

Social Impact

- Consistent with African culture and values
- Build on existing human and natural resources and provide appropriate stewardship
- Contribute to communities' self-reliance and self-drive mindset
- Partner with rural people on wealth creation
- Grow a rural middle class and opportunities for shareholding

Financial Impact

- Transfer both business and financial skills
- Rate of return—20-25% in local currency
- Quality of deal flow
- Quality of management and governance
- Diversification
- Vertical integration: primary and secondary production, supply chain, marketing, and tertiary
- Balance between late/early stage investments
- Scale

In contrast, the U.S. team developed a diversified investment strategy to be managed *internally* at the Kellogg Foundation. This strategy was based on both market research and a thorough review of mission-driven investing programs at other U.S. foundations.

The U.S. team (PMT) placed high importance on defining:

- Social investment objectives
- Financial investment objectives
- Program and asset allocations
- Benchmark financial returns

Each of these was then formalized into an investment policy statement. To keep the Foundation's mission at the forefront, each definition was carefully vetted against mission. In the same way, each mission-investing opportunity would also be reviewed for its level of mission compatibility.

Following a two-day intensive retreat, the U.S. team proposed social investment criteria for the Board's consideration to help the PMT filter proposals. The PMT then refined the preliminary social goals to serve as expected social impact targets. Preliminary ideas on social impact included benefitting vulnerable children and their families by:

- **Creating community wealth**, starting in geographic focus states of Michigan, Mississippi, New Mexico, and the city of New Orleans. This might include investments that create jobs with benefits, healthy working conditions, stability, and employee satisfaction.
- **Improving community infrastructure supporting healthy human development**, including access to credit, affordable housing, and owner-occupied rehab housing.
- **Increasing the number of small to medium sized enterprises serving vulnerable communities**, such as minority-owned preschools and childcare, micro-enterprises, healthy consumer products, and access to services relevant to these communities (e.g., sustainably operated health clinics).
- **Positively impacting lives** in alignment with the Foundation's vision and goals statement particularly focusing on enterprises that promoted access to healthy food and effective education and learning for vulnerable children.

Once that was done, the U.S. PMT began work on developing a "social metrics protocol," wanting to identify quantifiable objectives that could be projected and negotiated with investees on a deal-by-deal basis.

The PMT developed a strategy that follows a simple but important principle: Pursue deals where the social impact is explicitly described and ensure specific social metrics are linked to that impact as part of the upfront investment negotiation.

Ongoing monitoring and tracking of the progress of social performance were seen as key to the program's success and were written into the proposed policy statement. As the PMT later explained to the Board, they recognized that they would have to negotiate social metrics with investees prior to closing deals. The goal would be to agree on protocols that generate sufficient data to help answer “big questions” and to prepare Foundation “stories with numbers,” while also being simple to use. The Foundation and its investees would need to share responsibility for conducting strategic spot social audits to complement and triangulate the tracked metrics.

The Portfolio Management team acknowledged that they had much to learn. Consequently, the team built a learning objective into the Policy Statement as well, recognizing that this was an action-learning experience. Similarly, the PMT made a commitment to reporting on both the process and the results so that everyone involved would be able to review and learn from the experiment.