Action Blueprint
Executing the Strategy

Tasks

Each mission-investing program must have specific guidelines. The following tasks are some ideas to help better execute:

- Plan and hold regular meetings of mission investing committees. These meetings create an important accountability structure for reporting on deal flow and other aspects of mission investing execution.
- Build the deal pipeline through all available channels — program officers, mission and social investing networks and trade associations, other institutional investors with allied interests (such as banks, insurance companies, pension funds, and government agencies), and online deal application portals if appropriate.
- Prepare due diligence and approve or decline deals, which often involves working with consultants.
- Negotiate and close deals including agreeing and documenting social metrics; as described below. Legal counsel with specialist skills is essential in this process.
- Monitor the portfolio including tracking individual transactions against expected performance, tracking the portfolio against all targets set out in investment policy and all expected social impact, and implement a portfolio risk rating. A clear authority for portfolio monitoring is critical. Specialized consultants may also be helpful in the monitoring process.

Alternatives and Decisions

To a large extent, the work of all preceding phases is designed to provide a framework, organizational structure, and in-depth information for the decisionmaking process. As the decisionmakers begin to evaluate investment requests, there should be ongoing dialogue with staff to ensure that the form, amount and type of information provided is what decisionmakers need to be effective. Mission-driven investing deals are typically developed over a period of months during which time the investment committee will have an opportunity to request additional information from staff — sometimes above and beyond the standard due diligence. While most investment committees seek consensus approval on deals, this is not always achieved. Each investment committee will need its own guidelines for taking action (i.e., reaching an enforceable decision).

Given the calculated risk-taking involved in mission investing, there will always be nonperforming investments and losses from time-to-time. The investment committee will need to provide direction to staff in these instances. Over time, each investment committee and institutional investor develops a “credit culture” defined by its social and financial goals, risk tolerance, underwriting approach and collections policy. The same applies within a foundation mission-driven investing program.

Some proposed deals may be better qualified for grants than either below-market-rate or market-rate investments. Organizations or projects in a planning stage or focused on an activity that is not revenue producing will generally be unable to provide the repayment and yield that mission investors require. Through the analysis of deal feasibility, both program and financial staff often come to a deeper understanding of how to structure the provision of financial resources to organizations, including when to provide grant, below-market-rate financing, market-rate financing and/or combinations of these resources.

Managing Challenges

With the increasing emphasis on collaboration, entrepreneurship, and self-sufficiency in the philanthropic world, accelerated knowledge sharing will become a critical challenge/opportunity to tackle in the near future. As with any new initiative, through careful planning and networking with experienced outsiders, foundation leaders can avoid many of the most common pitfalls of starting a new complex effort such as mission investing.

Discovery

One of the greatest rewards of mission investing is identifying a broad range of new partners who can work to leverage existing resources in new ways. For example, this growing network may include government agencies that can use grant funds as “first loss” money for social investment funds, such as the New York Housing Acquisition Fund (similar fund structures are being set up in a number of other cities and states).

Another example of leverage is how commercial banks can provide senior debt that is credit-enhanced by a foundation’s subordinated debt (also a feature in the housing acquisition funds). Investment banks may partner with a foundation to create specialized investment funds, such as the real estate and screened public equity funds that Heron Foundation launched in 2008. Pension funds and insurance companies may purchase long-term loans that serve charitable purpose, thereby freeing up these resources for new loans. Community Development Financial Institutions (CDFIs) can provide wholesale solutions for foundations investing in particular geographies (e.g., Boston Community Capital) or program areas (e.g., the Low Income Investment Fund for housing, charter schools and childcare). All of these parties may co-invest with foundations through a wide variety of mission investment structures.

Through mission investing, foundations gain a new and different “seat at the table” where they can advocate for the long-term interests of all stakeholders — a powerful new way to bring positive change to communities in need.