Investment Strategy for Social Justice Philanthropy

Executive Summary:

Investment strategy is a vital, potentially powerful, yet often overlooked practice even within the social justice philanthropy ecosystem. This brief explores several grantmaking organizations that intentionally aligned investments with their stated missions and values with the added goal of helping to make markets more equitable over the long-term. With an impact investing strategy, foundation staff and boards have the opportunity to make investment decisions that make constructive contributions to the world beyond mere financial returns. For some foundations, this strategy has become integral to a foundation's mission, goals, and strategies.

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For the purposes of this research, we used the definition of impact investing offered in 2015 by the Center for Effective Philanthropy (CEP): "investments that are made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." Generally, these investments have the goal of some positive social benefit.

Interestingly, 86 percent of foundation CEOs who responded in the 2015 CEP report, agreed with the importance of achieving financial return on investments. But only 36 percent of them prioritized alignment with philanthropic goals as part of an investment strategy. In light of this finding, we assembled an infographic to explore key investment strategy practices for funders who want to invest in a way that aligns with social justice philanthropy goals and values. Our research also explores a diversity of strategies employed by foundations, suggesting a promising trajectory for social justice philanthropy and investment strategy convergence.

We also spoke with staff at three foundations (Surdna Foundation, The Cleveland Foundation, and the Chicago Community Trust) that have integrated impact investing into their philanthropic practice. Four themes emerge from this research. First, investment strategy and impact investing need to be practiced over the long-term. Second, working with investment managers who have diverse identities and experiences and varied networks as well as shared values with foundation staff is a key strategy. Third, including and bringing board members along, through open and ongoing communication and intentional education is critical to long-term success. Fourth, a tiered approach to impact investing, such as a pilot program may help ease the organization's transition to less traditional investments and strategies.

Impact investing is surrounded by a lot of jargon. Therefore, we've compiled a terminology guide to help readers navigate our brief. If you have questions, comments, or ideas, please don't hesitate to reach out to us at the Sillerman Center via email, sillermancenter@brandeis.edu.

the Sillerman Center
FOR THE ADVANCEMENT OF PHILANTHROPY

The Sillerman Center, based at Brandeis University, informs and advances social justice philanthropy in the United States. We engage the philanthropic community through convenings and presentations, publications, educational courses, fellowships and scholarships, competitive grant contests and through collaborative partnerships with grantmakers and social justice organizations.

This brief was compiled by Katherine Gagen and Sheryl Seller

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Terminology:

Mission-related investments (MRIs) – MRIs are investments that align with a funder's philanthropic goals and seek to generate a competitive rate of return in the market. MRIs do not count as part of a foundation's annual 5 percent minimum payout requirement.[1] MRIs "aim for positive social impact while contributing to the foundation's long-term financial stability and growth."[2]

Program-related investments (PRIs) – PRIs are a "tool for spurring new innovations and attracting private capital to support the activities [foundations] care about."[3]

Community development financial institutions (CDFIs) – "Foundations can extend loans either to individual organizations or to small businesses, or they can work with intermediaries, such as federally certified community development financial institutions (CDFIs), which invest in housing and community projects in low- and moderate-income neighborhoods."[4]

ESG – The E of ESG stands for attention to the environment (that is, care in limiting resource use, pollution, carbon emissions, and so on). The S is for social (fair treatment for workers and related practices), and the G is for governance (this includes things like gender and racial diversity on company boards).[5]

Recoverable grants – "Recoverable grants provide risk tolerant grant capital to nonprofits looking to bring critical goods and services to people and communities in need."[6] For example, a foundation might provide a recoverable grant to a nonprofit that is responding to a natural disaster and needs immediate capital to mobilize on-the-ground support before the government steps in with funding and support. The nonprofit may then return those dollars to the funder when other forms of capital flow in. This type of catalytic grant capital gives the nonprofit the flexibility of grant capital that the funder can then recover if and when a program accomplishes its objectives. "This type of patient capital is critical to helping nonprofits scale their impact, allowing them to take risks to bring new solutions to entrenched problems."[7]

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1 Prasad, S., et al. "Beyond the Grant: Foundations as Impact Investors." The Bridgespan Group, 2020. https://www.bridgespan.org/getmedia/31ddd240-d7eb-48e7-ad6a-20e3f64a7d95/beyond-the-grant-foundations-as-impact-investors-sept-2020.pdf

2 Ibid

3 Buchanan, P., et al. "Investing and Social Impact: Practices of Private Foundations." Center for Effective Philanthropy, 2015. https://cep.org/wp-content/uploads/2015/05/Investing-and-Social-Impact-2015-1.pdf

4 Prasad, S., et al. "Beyond the Grant: Foundations as Impact Investors." The Bridgespan Group, 2020. https://www.bridgespan.org/getmedia/31ddd240-d7eb-48e7-ad6a-20e3f64a7d95/beyond-the-grant-foundations-as-impact-investors-sept-2020.pdf

5 Dubb, S. "What Would a Social Justice Investment Ecosystem Look Like?" Nonprofit Quarterly, 2023. https://nonprofitquarterly.org/what-would-a-social-justice-investment-ecosystem-look-like/

6 "Recoverable Grants: Frequently Asked Questions." CapShift, 2022. https://capshift.com/wp-content/uploads/2022/09/CapShift-RecoverableGrant-FAQ-Update.pdf

7 Ibid

Social Justice Investment Strategies

Investing assets to align with values is an often overlooked characteristic of **social justice philanthropy**. Drawn from an analysis of foundation investment strategies, these practices and resources are intended to guide grantmakers toward investments that both reflect their missions and values and make markets more equitable over the long term.

DIVESTMENT & MISSION-DRIVEN INVESTMENT

Divest from harmful industries (e.g. fossil fuels, tobacco, firearms). Invest in businesses aligned with foundations' social justice values

IMPACT ASSESSMENT

Develop and continuously review metrics that consider contextualized, and long-term, impact on social challenges and improving well-being, not just shorter-term monetary value.

ACCOUNTABILITY & TRANSPARENCY

Transparency about investments, aided by mechanisms like community advisory boards, help hold foundations accountable to mission-aligned strategies.

LONG-TERM STRATEGY

This work is ongoing over the long term. Foundations must consistently review and monitor investment portfolios.

INVESTMENT MANAGERS

Like minded and supportive investment managers are crucial. Foundations should vet managers based on alignment with mission, diversity, and values.

COMPREHENSIVE INVESTMENT STRATEGY

Success requires a combination of tools: impact investing, ESG, shareholder engagement, and community investment. Focus on diversification and solutions benefiting the foundation's stakeholders.

ALIGNMENT WITH LONG-TERM PLANS

Consider aligning investments with strategic, humanitarian, and climate development plans (e.g., Sustainable Development Goals, Agenda for Humanity, OECD's Better Policies for 2030).

FIELD BUILDING

To grow a movement and make markets fairer and more equitable requires collaboration with peers and grantee partners, the provision of seed funding, and transparency around investments.

KNOWLEDGE SHARING

Foundations share divestment and investment strategies, learnings, and knowledge, which also helps hold them accountable.

COMMUNITY INVESTMENT?

Community investments support projects or initiatives that directly benefit and support the people and communities that a foundation serves. Community investment might also support such efforts as infrastructure development and job creation.

Resources:

- The US Sustainable Investment Forum's "Sustainable Investing: An Online Course for Individual Investors" provides an introductory guide/course on ESG investment strategy.
- This 2015 report, "Investing and Social Impact," by staff members from Center for Effective Philanthropy, explores whether and how funders engage in impact investing and what is important to funders as they make investment decisions.
- For additional information about how impact investors work with grantees and stakeholders, see "Beyond the Grant: Foundations as Impact Investors" (Bridgespan).
- We recommend "What Would a Social Justice Investment Ecosystem Look Like?" (NPQ, 2023) and "Shifting Capital and Power to Build The Regenerative Economy" (Justice Funders, 2023) to better understand how to craft a social justice investment strategy.
- The burden of risk is complex and situational, but funding a more equitable future may require foundations to perceive, assume, take on, and adjust to more risk than funding the status quo might require. In "Impact Investing: Risks for the Future We Want," Surdna Foundation staff explain the importance of taking investment, social, and uncompensated risks.

Foundation Documents Analyzed:

- Weissberg Foundation: Investment Policy Statement
- Akonadi Foundation: No More Fake Budgets?! Exploring Equity-Based Approaches to Financial Review
- Public Welfare Foundation: Investment Policy Statement
- Jessie Smith Noyes Foundation: Investment Policy Statement
- Jessie Smith Noyes Foundation: Building Power Across the Impact Investment Field
- Ford Foundation: Investment Committee Charter
- Rockefeller Brothers Foundation: Investment Policy Statement
- Rockefeller Brothers Foundation: Mission Aligned Investing: How We Assess Our Progress
- Rockefeller Brothers Foundation: Finance and Investing
- McKnight Foundation: Impact Investing
- Surdna Foundation: Impact Investing
- Surdna Foundation: Centennial Publication: Mapping the Journey to Impact Investing

Catalyzing Change: The Chicago Community Trust's Strategic Evolution in Impact Investing

INVESTMENT STRATEGY SPOTLIGHT

This Spotlight was compiled by Katherine Gagen and Sheryl Seller.

As a community foundation, The Chicago Community Trust is a public charity, serving a specific geographic area and engaging a broad spectrum of donors to collaboratively address local needs. For the Trust, impact investing is intertwined with democratizing philanthropy and its goal to engage a diverse donor base. As of 2023, the Trust offers programs that intentionally align financial investments with social and environmental missions.

Chicago Community Trust's impact investment journey began with a clear goal, as explained by Kristin Carlson Vogen, the Trust's Senior Director of Philanthropic Services: "There's a dual mandate for impact investing for us as a donor advised fund sponsor. And I think it's about mission alignment of our investment assets from the perspective of us as an organization, as well as a tool for donor engagement." According to Vogen, this involved defining the organization's mission and identifying investment opportunities that resonate with core values. This meant focusing on democratizing impact by being in partnership with the Trust's donor-advised fund (DAF) holders.

At the heart of their initiatives is the Benefit Chicago program, launched in 2016 in collaboration with MacArthur Foundation and Calvert Impact Capital – organizations that shared similar values and had experience with impact investing. This program aimed to democratize impact by providing impact investment opportunities for DAF holders. Focused on various components of impact investing, including loans to local intermediaries and Program Related Investments, Benefit Chicago laid the foundation for the Trust's subsequent endeavors.

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In 2020, the Trust, in partnership with CapShift, launched a comprehensive impacting investing platform. This came after internal research, stakeholder engagement, and a pilot program for a small subset of donor advised fund holders. The platform offered a curated list of impact investment options for donor-advised funds in alignment with the U.N.'s Sustainable Development Goals. With an emphasis on diverse investment choices, from ESG mutual funds to locally focused investments with Community Development Financial Institutions, the program aimed to cater to a spectrum of donor preferences.

The Trust's journey provides an example of the important balance between impact and financial returns. The Trust's Investment Committee faced challenges such as evaluating investments that didn't conform to traditional models and a slow uptake by DAF holders.

Thus, engaging donors proved pivotal in the Trust's impact investing success. The opt-in program allowed donors to participate based on their interests, and extensive one-on-one communication proved essential. The Trust recognized that donors gravitated towards ESG mutual funds that felt more familiar as well locally-focused investment choices. Laura Kernaghan, Senior Director of Investments, explained that these investment choices, "allow them to also have that deep emotional connection to what their charitable funds of the trust are ultimately doing." Clear communication, offering a variety of investment options, working with investment managers with diverse backgrounds and identities, and strategically reaching out to donors helped the Trust move through its impact investing journey.

As the Trust envisions the future, building a scalable program involves not only engaging donor-advised funds but also exploring possibilities for impact investing with endowment dollars. Ultimately, for the Trust, Vogen asks, "How can we activate these assets for good before they are granted back out?"

Surdna Foundation's Journey: Navigating the Evolution of Impact Investing

INVESTMENT STRATEGY SPOTLIGHT

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— Adam Connaker, Director of Impact Investments at Surdna

Surdna Foundation, a family foundation based in New York City and founded in 1917, seeks to foster sustainable communities. The foundation's work is marked by a commitment to social justice and diversity. As such, Surdna aims to integrate impact investing with social equity criteria into its endowment. As of 2023, almost two-thirds of the endowment's assets were invested with managers who have strong diversity characteristics and are intentionally tackling issues such as racial bias within financial systems and local economies.

The foundation began its foray into impact investing in 2014, working with Cambridge Associates (an investment firm whose clients include foundations, endowments, and other institutional investors), forming an investment committee, and hiring a Director of Impact Investing. Surdna sought to understand how its endowment, as well as the larger global financial system, could enhance its efforts to serve communities in need. The foundation staff and board came to prioritize aligning investments with its values. This prompted engagement of BIPOC investment managers for the long-term, and investments responsive to social and environmental goals.

Surdna staff worked with board members to explore other avenues for socially responsible investing. For example, Adam Connaker, Director of Impact Investments at Surdna, explained: "It's not just the managers we're investing with. What about the places that they invest? The products they invest in? The companies, and the diversity of the teams, and portfolio companies?"

The board's commitment to aligning values with investments led to public acknowledgement that an endowment exists for purposes that go beyond mere wealth accumulation. "It starts with chipping away at the assumption that the endowment is separate…and exists for only one purpose, [rather than having a] shared purpose with the institution" explained Connaker. This new conception led to a $100 million mandate to impact investing in 2017, marking thae integration of impact investing into the foundation's ethos.

Surdna also recognized the need to continually evolve and evaluate its goals, strategies, and impact. For example, the strategy of graduating investments, particularly into new asset classes, showcased an innovative approach to impact investing. Surdna's commitment to racial justice and equity underscored the potential for impact investments to address systemic problems such as economic inequality as well as environmental and climate injustices.

Surdna Foundation staff faced challenges during the transition from traditional investing methods to impact investing strategies. Some of these challenges included the new responsibility of demon-strating to stakeholders the financial viability of impact investing, the establishment of a resilient impact investment ecosystem, and the assurance of substantial and meaningful impact. They addressed these challenges by setting clear goals, demonstrating financial creativity, and creating a risk-tiered approach. The 80/20 allocation split between Mission-Related Investments (MRIs) and Program-Related Investments (PRIs) was a deliberate pathway for integrating impact investments into the broader endowment, with the ultimate goal, as explained by Connaker, "of building a mission-aligned, responsibly allocated endowment…and not have the portfolio be a carve out."

Surdna's impact investing work was further propelled by leadership staff's intentional education of board members and other colleagues. This included fostering a shared understanding of the intricacies and potential impact of the chosen strategy. Clear communication and demonstration of alignment with board objectives were integral to building trust and ensuring sustained support for impact investing.

Ultimately, Surdna's initial allocation of 10 percent of its endowment into impact investments allowed for a meaningful yet manageable testing ground. This approach facilitated learning, adaptation, and the development of an impact investing muscle that helped provide a pathway for the subsequent iterations of their impact investing journey.