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CHANGE THE WORLD FROM HERE

**Walking the Walk: The Role of Impact Investing in Foundation
Mission Fulfillment**

by

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Abstract

This project examines how various types of foundations are utilizing impact investing activities, such as program-related investments (PRIs) and mission-related investments (MRIs), as a function of their mission fulfillment. It also explores motivations for and barriers to foundations getting involved in impact investing, and how these organizations are communicating about these activities. Through an extensive literature review and a series of expert interviews, key findings around existing foundation investment practices are discussed. Based on this research, four recommendations for foundations either looking to engage in impact investing or wanting to deepen their practices are suggested: to create a shared language around impact investing; to break down the divide between program and investment teams within foundations; to be transparent in their impact investing activities and other internal practices; and to start somewhere on the impact investing path.

Keywords: philanthropy, foundations, impact investing, program-related investing, mission-related investing, mission fulfillment, mission-alignment

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Table of Contents

List of Figures.....	2
Section 1: Introduction	3
Research Questions	5
Objectives and Values	6
Section 2: Literature Review	7
The Field of Impact Investing	7
Definition of Impact Investing Terms	9
Foundations and Impact Investing.....	11
What is Impact?	15
The Legal Side of Impact Investing	16
Section 3: Methods and Approaches	17
Section 4: Data Analysis	17
Expert Interviews.....	18
Interview Themes	21
Section 5: Implications	27
The Sector is Complex	27
The Sector is Growing.....	28
Spending Down can Free Up Impact Investing Opportunities.....	28
The IRS Could Clarify Investing Rules in the Future	28
Potential of Donor-Advised Funds.....	28
Section 6: Recommendations	29
Section 7: Conclusion.....	31
References	32
Interview References	34
Author’s Bio	35

List of Figures

Figure 1: Spectrum of impact investing activities for foundations.....	3
Figure 2: Progress over past decade on indicators of impact investing market growth.....	8
Figure 3: Organizations by type in the impact investing marketplace.....	11
Figure 4: Important factors in foundation investing decision-making.....	13

Section 1: Introduction

In the past few years, there has been a growing movement within the philanthropic sector calling on foundations to truly walk the walk and utilize the vast resources at their disposal to truly create lasting, systemic change in our shared communities and on our shared planet. In a positive light, philanthropy can be viewed as a way for wealthy individuals, families, and/or organizations to give back to their communities; in a negative light, philanthropy can be viewed as a way for these same wealthy players to hoard wealth and only give back a small percentage of that wealth, only to the issues they personally care about (despite what the community may actually need), all while getting a tax break.

Foundations are unique in the sense that they exist solely for their charitable purpose; unlike other for-profit companies who provide a product or a service, foundations' charitable mission statements are their true north stars. And also unlike direct-service nonprofits, which are also likely driven by similar charitable mission statements and goals for impact, foundations have great amounts of financial wealth and power within the philanthropic ecosystem.

And yet, the traditional model of philanthropy is one in which a foundation spends only 5% of its assets per year (while the IRS requires a 5% annual payout, the majority of foundations treat this percentage as a ceiling, not a floor), and invests the remaining 95% of its endowment, in order to generate a financial return to continue its 5% grantmaking indefinitely:

For the vast majority of foundations, then, grants become the sole vehicle by which they pursue their mission. What that means is that for most foundations, 5 percent of capital returns is assigned in pursuit of 100 percent of the institution's larger social mission, while 95 percent of capital assets are managed in pursuit of increasing financial value, with zero percent consideration for the institution's social mission (Emerson, 2003b, p. 41)

To be fair, many foundations do exceed this 5% payout, and there is a strong argument to be made in support of foundations doing great work through their grantmaking and being able to continue doing that work in perpetuity.

However, the events of the past year, including a global pandemic extending into its second year and a national reckoning with racial injustice, have only contributed to a growing scrutiny of foundations and whether or not they are truly utilizing all their resources to both make an impact as well as live up to their own internal values; foundations “are experiencing increasing demands placed upon them by their own sector and the need to respond to the major changes in their external environment. In order to create breakthrough solutions, to long-standing problems, foundations have to become more innovative and seek to experiment and find new solutions” (Bahr, 2019, p. 1).

The idea that foundations are ‘hoarding’ wealth as they sit on their endowments, and the benefits of spending down, are hot topics in the sector. As a result of the increased focus on foundations’ activities beyond their grantmaking, many have called into question what exactly foundations are doing with the remaining 95% of their assets that they don’t spend on their annual grantmaking. The idea that a foundation’s mission could state its goal as reducing incarceration rates, but then in fact have a part of their endowment invested in private prisons, seems like a huge disconnect, but is not all that uncommon.

Despite this cognitive dissonance present within many foundations, there has been a promising, growing interest in impact investing amongst foundations, and how they can better align the full range of their financial investments and activities with their values and missions. While there is a wide range of impact investing opportunities, across various asset classes and financial strategies, the two options most prevalent in foundations are program-related investments and mission-related investments. These impact investing activities are potential ways for foundations to further their impact and utilize these activities as a function of their mission fulfillment.

Spectrum of impact investing activities for foundations

Financial Only		Impact Investing			Social Only	
Conventional Investment	Responsible Investment	Sustainable Investment	Mission-Related Investment	Program-Related Investment	Recoverable Grant	Grant
Investments selected with little or no consideration given to social or environmental or corporate governance factors	Investments that avoid those with material interests in ethically or environmentally questionable products	Investments selected with deliberate consideration of environmental, social and corporate governance practices that may reduce risk, enhance value and benefit society	Investments focusing on high-impact solutions to societal challenges that can also generate a financial return	Investments focusing on high-impact solutions to societal challenges that may be repaid if successful	Grant in support of high-impact solutions to societal challenges that may be repaid if successful	Grant in support of high-impact solutions to societal challenges that cannot generate a financial return

Source: Modified from “Income Investing,” Silicon Valley Community Foundation

Research Questions

The driving interest behind this project was a question around how foundations are thinking about their investment activities, and whether or not they view these activities outside of their traditional grantmaking portfolios as a part of their mission fulfillment. If so, how do they go about that? And if not, why is that? While grantmaking may be the primary way foundations report on impact generation and mission fulfillment, how are they thinking about the potential impacts of the other 95% of their assets, and how are they sharing this information publicly (similar to how grantmaking information would be shared in an annual report)? And finally, if foundations are not currently engaged in any kind of impact investing, why is that? Making investments that go against the purpose of a foundations’ mission is counterintuitive to their very existence. Considering all these questions, three primary research questions resulted:

RQ1: How are foundations utilizing impact investing as a function of their mission fulfillment?

RQ2: What are the primary motivators for foundations to get involved in impact investing, what are the primary barriers?

RQ3: How are foundations communicating their impact investing activities to their stakeholders?

Objectives and Values

My interest in this project was to really dig deeper into the cognitive dissonance that exists for many foundations, who on paper say they are all about some charitable purpose, but in reality, the full range of their investment activities don't align with that purpose. The goal was to better understand why more foundations are not engaged in impact investing, and why that is. The idea that foundations could consider and report on their investments as a part of their mission fulfillment, alongside their grantmaking, seems so obvious, and yet is not at all the standard. And for foundations who are deeply engaged in this work, many don't seem to share their activities publicly, which seems like a missed opportunity for both positive press as well as a chance to shift the actions of other foundations in the field.

Throughout an extensive literature review and multiple expert interviews, impact investing practices and activities within the philanthropic sector generally, and within several individual foundations, are explored. The key findings for each research question are summarized, and based on that, several recommendations for foundations are made. Finally, potential implications of these findings for the philanthropic sector are discussed.

Section 2: Literature Review

While impact investing is a rapidly growing field, the availability of academic literature on the subject is still catching up. Much of the available literature is about the general field of impact investing, specifically focused on private, corporate companies engaging in various forms of impact investing, and is more along the lines of a side note when discussing traditional investing practices. The field is still in its relatively early stages, and is continuously evolving; this is another reason academic literature has yet to establish a firm footing on the subject. The terms used when discussing impact investing are not universally established or accepted, and definitions can vary widely, making it difficult to discuss without a universal shared language.

That being said, this literature review will explore existing literature across several subjects: the general field of impact investing; a definition of impact investing terms; current impact investing activity amongst foundations; how foundations measure impact; how foundations consider mission fulfillment; and how foundations can integrate their investments with their grantmaking portfolio when considering their impact and/or mission fulfillment.

The Field of Impact Investing

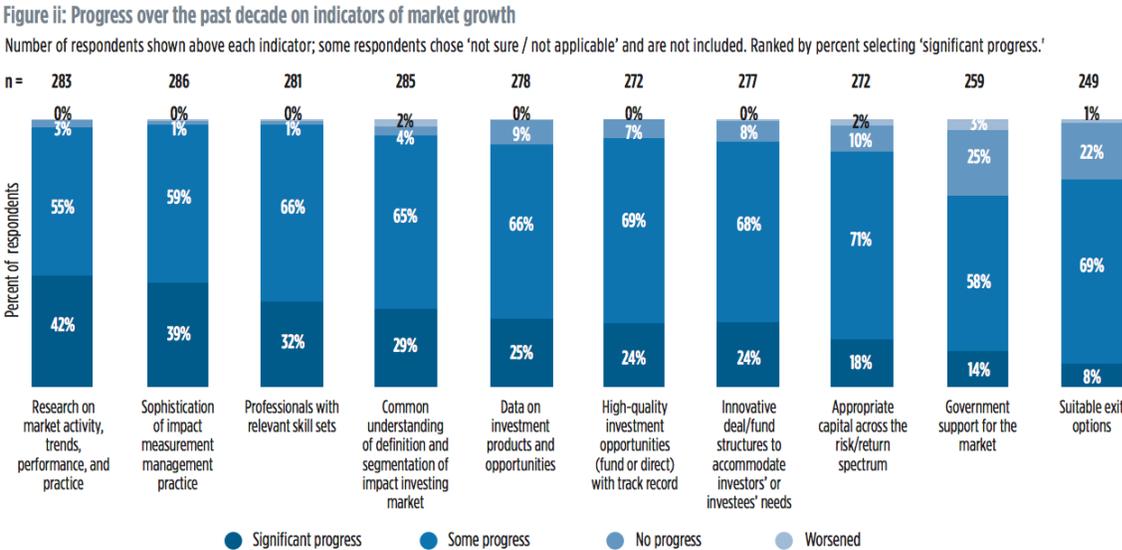
The Global Impact Investing Network (The GIIN), is a leading nonprofit organization dedicated to increasing the scale and effectiveness of impact investing through relationship building, education, and research. The GIIN's definition of impact investing is most often used throughout the sector: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" ("What You Need to Know About Impact Investing," The GIIN). The GIIN goes even further to identify four practices that define impact investing: intentionality; the use of evidence and impact data in investment design; the management of impact performance; and the contribution to the growth of the industry. The exciting thing about impact investing is that most any individuals or

organizations engaged in investing or interested in investing can make impact investments. As noted by The GIIN,

Impact investment has attracted a wide variety of investors, both individual and institutional:

- Fund Managers
- Development finance institutions
- Diversified financial institutions/banks
- Private foundations
- Pension funds and insurance companies
- Family Offices
- Individual investors
- NGOs
- Religious institutions (“What You Need to Know About Impact Investing,” The GIIN)

Given all these various actors in a growing ecosystem, The GIIN estimated the current market size at USD 715 billion in its 2020 Annual Impact Investor Survey, and that the market has grown significantly in the past decade:



Source: GIIN, 2020 Annual Impact Investor Survey

Source: Hand, D., Dithrich, H., Sunderj, S., & Nova, N. (2020). *2020 Annual Impact Investor Survey*. Global Impact Investing Network. <https://thegiin.org/research/publication/impinv-survey-2020>

Definition of Impact Investing Terms

Grantmaking: the act of giving a grant, or a financial award, to an organization or individual to undertake charitable activities (“Glossary of Philanthropic Terms,” Council on Foundations).

Impact investing: “Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (“What You Need to Know About Impact Investing,” The GIIN). Impact investing includes a range of investment activities, such as program-related investments and mission-related investments.

Program-related investment (PRI): Program-related investments are an investment option used by foundations in addition to, and often in alignment with, their traditional grantmaking. “PRIs, made from either a private foundation’s program funds or investment assets, allow the foundation to gain moderate financial benefits through the repayment of principal and returns on below-market-rate loans or equity” (Qu & Osili, 2016, p. 306). PRIs can be thought of as an investment in a company or organization with the hope that the investment will be returned, often with interest or capital gains (Haber, 2019). The IRS defines program-related investments as those in which:

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose. (“Program-Related Investments”).

It’s important to note that the term program-related investments is only defined by the IRS in relation to private foundations.

The primary purpose of these investments is charitable, and they are typically managed by grants managers on the programs side of a foundation. PRIs can count towards the legally required 5% annual payout from a foundation’s assets. When a program-related investment results in a return of some portion of the principal investment, the foundation has until the close of the following year to redistribute those funds, as a result of the initial investment counting towards the 5% payout rate (Searing, 2008, p. 56).

Mission-related investment (MRI): Mission-related investments are financial investments made with social purposes; “Made from foundations’ investment assets, MRIs are usually market-rate investments and subject to prudent investor standards as conventional investments” (Qu & Osili, 2016, p. 306). While “mission-related” does not denote whose mission exactly the investment is related to, some view mission-related investments as a broader social investment, while others view MRIs as more in line with a foundation’s individual mission: “mission-related investing (MRI) is choosing investments that further the organization’s mission” (Haber, 2019, p. 47). These investments do not count towards a foundation’s 5% annual payout, and are one of the ways foundations can choose to invest the remaining 95% of their assets in their endowment. These investments are not clearly defined or regulated by the IRS.

Investment screens: Investment screens are a tool applied to investments to either divest from certain companies or practices, or actively invest in specific initiatives or goals (Haber, 2019, p. 46). Divestment screens are often referred to as negative screens, which are exclusionary, while active investments in certain companies or values are referred to as positive screens. It is important to note that generally, negative investment screens are not considered impact investing; only proactive, positive screens are.

Environmental, social, and governance (ESG) investing; sustainable investing; socially responsible investing: These are all types of investing focused on specific goals, and often using investment screens. ESG investing looks for qualities a company should have around environmental, social, and governance practices in order to be considered for investing (Haber, 2019, p. 48). ESG investments can use either positive or negative screens. Sustainable investing is another common term, with essentially the same meaning as ESG investing. Socially responsible investing (SRI) is yet another broad investment category with overlap with other investment strategies; “essentially, entities engaging in SRI are seeking to invest in companies for financial return as well as to support activities that they consider in society’s best interest” (Haber, 2019, pp. 50-51).

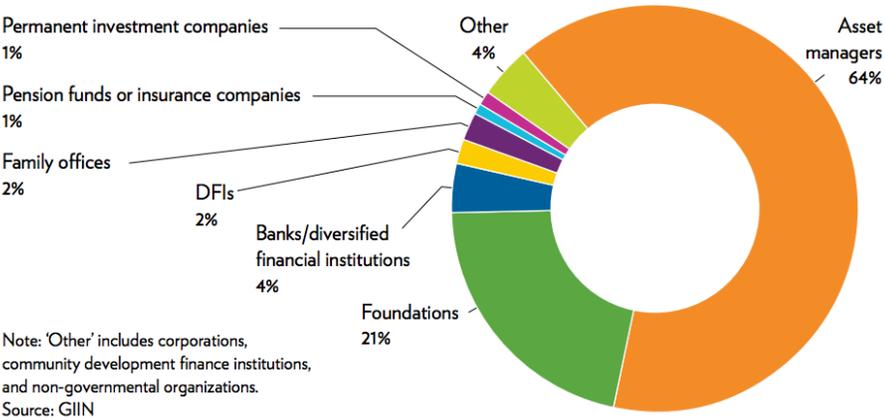
Double/triple bottom line investing: These terms are often used to describe impact investing, or investing with a double bottom line of both profit and societal good. The triple bottom line encompasses the financial, social, and environmental aspects of a company or investment, through the three Ps: profit, people, and the planet (Kenton, 2021).

Integrated capital: Integrated capital is the “coordinated and collaborative use of different forms of capital (equity investments, loans, gifts, loan guarantees, and so on), often from different funders, to support a developing enterprise that’s working to solve complex social and environmental problems” (Shaffer, 2014). More broadly, integrated capital is a useful terms for foundations in considering the various financial and non-financial resources at their disposal that they can use to generate impact and effect change.

Foundations and Impact Investing

Foundations are just one of the many players in the larger impact investing ecosystem. According to a 2019 report from The GIIN, about one in five organizations currently in the impact investing market are foundations (Dithrich & Mudaliar, 2019). This is helpful in considering the relative influence of foundations in the market, and how much potential there is.

FIGURE 1: Organizations by type
 n = 1340; includes all organizations in the database.



Source: Dithrich, H., & Mudaliar, A. (2019). Sizing the Impact Investing Market .Global Impact Investing Network. <https://thegiin.org/research/publication/impinv-market-size>

However, Grippe & Kelley note, “The practice of impact investing is rapidly gaining momentum, but the level of activity among individual and institutional investors, including philanthropists and foundations, has barely penetrated projections of market potential. Foundations are among the most reluctant investors” (2016). A 2016 report from The Center for Effective Philanthropy (CEP) also found that amongst surveyed foundations, “a sizable percentage of responding foundations report engaging in impact investing, but tend to commit very small percentages of their endowment and/or program/grant budget to the effort” (Buchanan et al., 2015, p. 5). So while foundations may be involved in impact investing, it is not a considerable part of their investing activities.

This CEP study is a helpful benchmark for gauging the level of foundation involvement in impact investing. The report begins by noting that “Despite the proliferation of books and articles, little data is available on what foundations are currently doing in the areas of impact investing or negative screening” (Buchanan et al., 2015, p. 7). Clearly, there is an information gap, which this report attempts to bridge. Out of 230 CEOs of US-based private foundations with \$10 million or more in annual giving, 64 CEO responses indicate: 41% say their foundation engages in impact investing; 6% say no but we plan to engage in the future; 33% say no, and we’re not sure whether we will engage in the future; and 20% said no, and we do not plan to engage (Buchanan et al., 2015, p. 7). The most common areas impact investments were made in included community development, employment/economic development, and education (Buchanan et al., 2015, p. 8). Despite these figures, only a small percentage of endowments (2%) or program/grant budgets (0.5%) went toward impact investing (Buchanan et al., 2015, p. 8). The survey also touched on the difference between negative investment screening and impact investing; out of 60 CEO respondents, 3% engage in negative screening but not in impact investing; 25% engage in impact investing but not in negative screening; 13% engage in both negative screening and impact investing; and 59% do not engage in either negative screening or impact investing (Buchanan et al., 2015, p. 9). The report concluded by commenting that “Foundation CEOs and boards view their primary fiduciary responsibility as maximizing financial returns, and do not generally take into account mission, values, or programmatic goals when considering endowment investments” (Buchanan et al., 2015, p. 12). Clearly, the majority

of foundations are not currently engaged in impact investing, and much of the chatter around the sector may just be chatter.

FIGURE FOUR.
How Important is Each of The Following Factors to The Decisions Your Foundation Makes About Its Investing?



N varies from 61 to 63 across the items represented in this figure.

Source: Buchanan, P., Glickman, J., & Buteau, E. (2015, May). Investing and Social Impact: Practices of Private Foundations. <https://cep.org/portfolio/investing-and-social-impact-practices-of-private-foundations/>

Despite this, the motivations for foundations to engage in impact investing are compelling. According to Wood & Hagerman, following the 2008 recession when U.S. foundation endowments were down 30%, they were looking for other ways to make an impact (2010). The practice of mission investing “is seen by some foundations as a way to increase the resources they have at their disposal – as practitioners tend to put it, MI [mission investing] leverages the 95% of financial resources that generate the ongoing revenue to support an annual

5% philanthropic disbursement. For some investors, MI is the relationship between a foundation's corpus and its philanthropy..." (Wood & Hagerman, 2010). Ormiston et al. agrees, noting that for foundations, aligning investments with its mission and values makes sense, as impact investments can allow the organization to "utilize all resources available to directly amplify impact" (p. 370). Quinn et al. takes it one step further: "if the elements of a foundation are not integrated, the foundation's overall effectiveness is potentially undermined and resources are potentially wasted" (2015, p. 9). Not only do foundations have a reason to engage in impact investing from a mission-related perspective, but the effectiveness of the entire organization may be at stake if not for greater alignment between programs and investments.

The idea that foundations are unique in their mission-orientation, and thus have almost an obligation to engage in impact investing, is also noted by Wood & Hagerman: "foundations at least in theory have a special fiduciary role given their ultimate purpose for being, because their beneficiaries are, frequently by definition, those people, groups, or activities that receive grants or the benefit of grant activity" (2010). Foundations' very reason for existing is rooted in its mission; unlike other institutional investors who have legal obligations to maximize financial returns for their beneficiaries, foundations' investments can align directly with their mission objectives (Wood & Hagerman, 2010). Fritz & von Schnurbein expand on this unique status of foundations:

As other types of nonprofit organizations (NPOs), too, foundations are utility—rather than profit-maximizing organizations. Therefore, they are characterized as being "mission-driven", as their utility is derived from the degree of mission achievement. Traditionally, foundations fulfill their mission using the returns of their capital. The capital, however, is invested without any regard to mission or social purpose. This may cause counterproductive results as specific investments might derogate from the social purpose pursued with the returns. Hence, if foundations align their investment decisions with their mission, they must not use their funds for supplying risk capital to companies that show major and structural involvement into controversies related to the mission. One can hardly imagine that foundations would fund beneficiaries involved in activities with widespread negative environmental impact due to hazardous emissions or human rights abuse and child labor. Earning returns through the investment in companies involved in such activities may meet the same standards. Thus, a mission-driven portfolio selection goes beyond usual socially responsible investing (SRI)-selection, as the purpose of a foundation may be much more focused. (2019, p. 1)

All of this contributes to a foundations' larger idea of impact generation.

What is Impact?

What, exactly, does impact mean for a foundation? What does it mean for the organizations, individuals, or communities being “impacted”? The concept of impact measurement is an entire other area within the philanthropic sector, but in the context of impact investing by foundations, Ebrahim & Rangan note that since the early 1990s, there has been a refrain of accountability, which has now been replaced with a refrain of impact, by funders who want to know where their funds are making a difference (2014, p. 118). Ebrahim & Rangan differentiate between outcomes and impacts, identifying outcomes as lasting changes in the lives of individuals and impacts as lasting results achieved at a community or a society level; however, “attribution remains a challenge regardless of whether one is assessing outcomes or impacts” (2014, p. 120).

In a Stanford Social Innovation Review article, Brest & Born identify three parameters of impact: “Enterprise impact is the social value of the goods, services, or other benefits provided by the investee enterprise. Investment impact is a particular investor’s financial contribution to the social value created by an enterprise. Nonmonetary impact reflects the various contributions, besides dollars, that investors, fund managers, and others may make to the enterprise’s social value” (2013). Much of the literature around impact investment measurement is specific to corporations and other for-profit entities. So how are foundations supposed to evaluate their investments, and beyond that, consider their impact in combination with their grantmaking?

The difficulty, as Aggarwala & Frasch observe, is that “while foundations generally evaluate both their endowment performance and their grants, they rarely consider the two in conjunction with one another” (2017, p. 121). Aggarwala & Frasch continue:

While some foundations have put their entire focus on impact investing, philanthropy still lacks the tools that enable such investments to be made with the same rigor as the best financial investments and philanthropic grants. This reveals a more fundamental problem: We do not currently manage foundations as the integrated portfolios that they are. (2017, p. 119).

As such, Aggarwala & Frasch propose a way to measure a foundation’s blended performance, by looking at its combined impact and financial return, divided by the total assets in its endowment at the beginning of the year (2017, p. 122).

Emerson also explores the flaw in our current understanding of investment and returns, noting that it's founded upon a separation in the creation of social and economic value (2003a, p. 36). Emerson also agrees that a blended framework is necessary:

What is required is a unifying framework that expands the definition of investment and return beyond the historic one of finance and toward a new definition capable of holding a broader understanding of value than that most frequently reflected in traditionally endorsed financial operating ratios. In truth, the core nature of investment and return is not a trade off between social and financial interest but rather the pursuit of an embedded value proposition composed of both. (2003a, p. 38).

The Legal Side of Impact Investing

What does the IRS say about all of this? For many foundations, the legalities around impact investing seem far too complex to even explore. As discussed, while PRIs are defined by the IRS for private foundations, MRIs are not technically defined. In discussing the 1969 Tax Act that established many modern rules for philanthropic activity, Reiser notes:

Although it did create the concept of a “program-related investment,” the 1969 Act did not envision foundations pursuing charitable impact through their investments in a very substantial way. This meant its framers could not plan sufficiently for how other pieces of the Act might frustrate these activities. But they can. Some of the difficulties have been ameliorated by the Treasury Department and the IRS through regulatory changes and guidance. Still, foundation adoption of values-aligned investing is slower than might be expected.... (2020, p. 357)

Reiser goes on to detail how the 1969 Act actually penalized investments that might “jeopardize the carrying out” of a foundation’s charitable functions, and this language has discouraged many foundations from engaging in mission-related investing.

However, Reiser also proposes a potentially bold idea, wondering if in the future, the IRS may not only clarify rules around mission-related investments, but in fact, mandate them:

An even more ambitious change might not merely permit or encourage mission-related investment but mandate it. The arguments for mission-related investing are strong and cut to the core of the concerns to which the 1969 Act responded. Foundations are given significant advantages – tax and otherwise – in recognition of their contributions to society. But if managed as required to comply with the law, a foundation needs to spend only 5% of its assets per year to support actual charitable activity. The data show that on average, most foundations do act in precisely this way. U.S. foundations’ grantmaking and PRIs hover right around the mandatory 5% floor.... Could they not be doing more? The 5% number envisioned foundations being able to roughly replace their spent assets through investment gains, therefore allowing them to be sustainable in perpetuity. Even if

one does not seek to shake the potentially perpetual lifespan of foundations, could we not ask foundations to do some good, something mission related, with their remaining 95%? Mission-related investment is the way to do this. Demanding that foundations align their investments – at least some of them – with their values and their charitable missions would hardly be drastic. If the treasury is convinced such investments can be made without endangering foundations’ ability to carry on their charitable activities, mandating that foundations enter this area is far from radical (2020, p. 382)

While this concept may seem radical, it is largely in line with the arguments for mission-aligned investing discussed throughout this literature review.

Section 3: Methods and Approaches

This project was approached with two primary research methods: the literature review and in-depth expert interviews. The literature review served to create a general picture of the field of impact investing and the role of foundations in that field, and to define various impact investing terms and concepts. Expert interviews with nine different impact investing practitioners and/or content experts were then conducted, to understand specific practices within foundations and identify trends in the larger philanthropic sector.

Interviewees were identified through my own professional connections, through my work in a philanthropic membership nonprofit. My role at this nonprofit may have influenced interviewees and their decision to speak with me about their experiences. I also acknowledge that the interviewees were biased in that they are already very passionate about and engaged in the impact investing space. The opinions and experiences of the nine interviews only represents a very small slice of the foundation impact investing world, and do not necessarily represent the opinions of their employer organizations or the philanthropic sector at large.

Section 4: Data Analysis

Expert Interviews

In order to get a more in-depth look at specific practices within different foundations, as well as opinions on the current state of the sector and where it may go in the future, nine separate expert interviews were conducted. These semi-structured interviews ranged in length from 30 minutes to an hour, and took place either over phone or over a Zoom video call.

The conversations were mostly organic and free flowing, allowing various sub-topics to come up naturally as the interviewee wanted, but all interviews addressed the following questions:

- Give some background on yourself: your role at the organization, what you do, how you got started there, your career path
- What trends have you seen in the impact investing space within philanthropy in the time you've been involved in this work?
- What are some of the biggest motivators you see for foundations to get started impact investing?
- What are some of the biggest hesitations or barriers?
- Where do these conversations first start, and then who plays a leadership role in the ongoing work? CEOs/leadership? Board? Staff?
- Are foundations more engaged in PRIs or MRIs, and why? Why one and not the other?
- How do foundations communicate about these activities to their stakeholders (or not)?
- How do you see foundations considering their investment activities as a part of their mission fulfillment (or not)?

In total, these interviewees spanned the following organization types: one impact investing membership organization; one impact investing research organization/field leader; two community foundations; one public foundation; three private family foundations; and one impact investing advisor/content expert. It should be noted that the views expressed by all nine interviewees reflect only their personal opinions and experiences, and do not necessarily reflect the positions of the organizations they work for.

Interview 1: Melanie Audette, Senior Vice President, Mission Investors Exchange

Melanie Audette has been at Mission Investors Exchange (MIE) for nearly nine years, in multiple roles. In her current role as Senior Vice President, Member and Partner Engagement, Melanie helps set the organizational direction of MIE, works with MIE members direct resources towards impact investing opportunities, and facilitates partnerships across the sector.

Interview 2: James Cutler, Senior Investment Officer, Silicon Valley Community Foundation

James Cutler is a Senior Investment Officer at the Silicon Valley Community Foundation, and has been there since January 2020. He previously worked at credit unions and in more traditional finance, and had his impact investing “aha” moment after the BP oil spill when talking to a client about their investments, and seeing they were invested in oil companies. Since then, he has spent his career trying to ensure finances and values align.

Interview 3: Rachel Bass, Senior Manager, Research, The Global Impact Investing Network (GIIN)

Rachel Bass has been at the GIIN for six years, and works on their small but mighty research team. The GIIN is an industry leader in impact investing knowledge and community building, and disseminates their own research on the sector. In her role, she has great insight into the state of the impact investing field, where the sector is headed, and how different types of organizations are thinking about and executing their impact investing strategies.

Interview 4: Rebekah Butler, Co-Executive Director, The Grove Foundation

Rebekah Butler was brought in by Andy and Eva Grove to help grow their family foundation, The Grove Foundation, back in 2013. Since then, she has helped cement the foundation’s strategic philanthropic and operational direction, and in her current role, she is working to transition the foundation’s portfolio to complete mission alignment. Her background in business and finance has helped her in understanding the investing space and doing due diligence on all investments by the foundation.

Interview 5: Christine Reyes, Chief Financial Officer, The Women’s Foundation of California

As Chief Financial Officer at The Women’s Foundation of California, Christine Reyes has worked with the foundation’s CEO for the past three years to effectively implement the

foundation's strategic focus. She's brought her background on nonprofit finance and accounting to The Women's Foundation and has helped turn the organization's finances around and has implemented mission-alignment across every aspect of the foundation.

Interview 6: Sarah Abbe Taylor, Program-Related Investments Officer, The San Francisco Foundation

Sarah has been with The San Francisco Foundation for eight years, where she evaluates, underwrites, and presents program-related investment opportunities, under the umbrella of the foundation's larger investment team. She's the only person in the foundation that spends 100% of their time on the PRI program.

Interview 7: Jen Astone, Principal, Integrated Capital Investing

Jen Astone considers herself a financial activist, and is a content expert in all things impact investing. For the past year and a half she has been consulting under her own organization, Integrated Capital Investing, to help organizations design integrated capital investing strategies. Prior to that, she was the Executive Director of the Swift Foundation, and has worked in philanthropy for over 20 years.

Interview 8: Sonja Swift, Program Advisor, Swift Foundation

Sonja Swift has worked with Swift Foundation for over a decade, and was instrumental in its radical transition to a more mission-aligned organization. As a member of the Swift family, Sonja brings a unique perspective on the dynamics of internal practices and change within a family foundation, and is wholly passionate about mission-aligned investing. She utilizes her position to advocate for greater accountability and transparency both within Swift Foundation and across the field of philanthropy.

Interview 9: Jamie Dean, Director, Impact Investments, The Schmidt Family Foundation

Jamie Dean leads impact investing within The 11th Hour Project, the grantmaking arm of the Schmidt Family Foundation. She previously led a grantmaking program at The 11th Hour Project, and so is well versed in both the program and investment sides of the foundation.

Interview Themes

Key Findings for Research Question 1

Impact does not equal mission alignment

Perhaps the most relevant theme that repeatedly came up from interviewees around the question of how foundations are utilizing impact investing as a function of their mission fulfillment is that impact does not necessarily equal mission alignment. While all my interviewees were a bit biased as they were all deeply steeped in the impact investing space, the majority all pointed out how difficult it was to have complete mission alignment across all your investments. While your investments can be “impact” investments, and be aligned with your broader organizational values, that does not necessarily mean those investments are completely aligned with your foundation’s specific mission. For example, your foundation’s mission could be to create greater educational opportunity for youth of color in the Bay Area, but you may have part of your endowment invested in clean energy technologies. This investment could be considered an impact investment, and is certainly more values-driven than an investment in oil and gas, but the investment is not exactly in line with the narrow mission, and thus is not necessarily considered part of a foundation’s work to fulfill its mission.

That being said, many interviewees still saw impact investments that are not 100% mission-aligned as part of their broader organizational responsibilities and in line with their foundation’s values. This was an important insight in considering my RQ1, and a possibility for a shift in perspective. Foundations often have both mission and vision statements, and while reporting on their “impact” is often aimed at addressing the mission statement, a sector shift towards addressing more “idealistic” vision statements or higher-level values could be helpful in finding common ground across the philanthropic field. Ultimately, it could be argued that the

majority of foundations aim to work towards a better, more just world; with that view, all impact investments would indeed be considered a part of their mission fulfillment.

The iron curtain is getting in the way

Over and over, I heard the term “iron curtain” to describe the divide between the program and the investment sides of foundations. While this divide makes sense in theory, as programs teams are typically the ones to manage PRIs and investment teams are the ones to manage MRIs, the separation doesn’t allow for communication between the two sides to generate a shared understanding of the impact of both sides’ work, and how it can all contribute to a foundation’s mission fulfillment. Interviewees commented that programs teams often felt that grantmaking (or PRIs) were the only real way to generate impact, and viewed only their own activities as fulfilling the mission of the organization; they didn’t see how investments could also contribute towards mission fulfillment. On the other side, investment teams felt frustrated with the idea that everything “impactful” had to be a grant (or close to a grant), and felt that impact and the added bonus of a financial could be generated through investing (J. Dean, personal communication, April 16, 2021). Sarah Abbe Taylor mentioned that The San Francisco Foundation is attempting to bridge this divide by having joint program and investment team meetings, and having more cross-team communication (personal communication, April 14, 2021).

Impact investing is an “add-on”

For the majority of foundations, impact investing is not truly core to their work or to their mission fulfillment, but is simply an “add-on” to their existing grantmaking and investment activity. This means that PRIs are not seen as a primary tool, and/or that the entire endowment is invested in impactful ways or with complete mission-alignment. In most cases, foundations created a carve-out (either by percent or by dollar amount) from their program budgets and/or endowments to dedicate to impact investments. This is not necessarily a bad thing; interviewees expressed that doing some kind of impact investing is better than doing none. However, these investments are not central to the work of the foundation.

Impact investing is a part of a foundation's toolkit

Building off of the idea that some kind of impact investing is better than none, nearly all interviewees expressed a view along the lines of impact investing being a part of a foundation's toolkit. As Jen Astone said, with all the resources at a foundation's disposal, if you're not utilizing all the tools in your toolkit available to you to benefit your community, then you're not truly fulfilling your mission (personal communication, April 15, 2021). Impact investing is just one of the tools foundations can utilize to make impact or create positive change, beyond their traditional grantmaking portfolios.

Key Findings for Research Question 2

Motivators

By far, the greatest motivator mentioned by interviewees for foundations to start getting involved in impact investing was peer pressure. Rachel Bass noted how the potential threat to one's public reputation in the event of a "bad" investment being exposed, as well as the peer influence of other foundations, can spur many foundations into impact investing (personal communication, April 12, 2021).

Many also noted the acknowledgement of hypocrisy by foundations if they didn't engage in some kind of values-aligned investing. Sonja Swift commented that foundations couldn't truly walk the walk if their investments were in complete misalignment from their mission and values (personal communication, April 16, 2021), while Rachel Bass likened it to "planting a seed on one side and deforesting the other" if foundations invested in things that ran counter to their grantmaking and to their mission (personal communication, April 12, 2021).

Finally, the other potential motivator for foundations lies within their board of directors. If the board gets into impacting investing, it can lead to a feeling that the organization they're charged with driving is going to be able to make more impact and fulfill their mission through impact investing. Melanie Audette commented, "for most boards, it's about... really being able to do the job of a foundation, which is to care for a resource communities" (personal communication, April 7, 2021). If a board member or two is the one leading the drive for the foundation to get started in impact investing, most interviewees agreed that this was the key to

success, and that this work really needed to start at the board and/or foundation leadership level to truly succeed.

Barriers

The lack of a shared organizational understanding around impact investing was repeatedly cited as a barrier for foundations when looking to engage in impact investing. This encompasses both the lack of a shared language around impact investing terms and concepts, as well as a lack of shared understanding around the foundation's specific investment strategy. Jen Astone noted that there are language and concepts that make it challenging to do things that are not "standard practice;" it's not just the psychology around money, but there's the whole addition of the "language barrier" which scares people (personal communication, April 15, 2021). James Cutler also agreed that he viewed a key part of his work as deconstructing the PRI and MRI language, and wanting to break away from using those terms altogether in favor of less jargon-y terms like impact-first investment (personal communication, April 9, 2021). On the organizational strategy piece, Melanie Audette stressed the importance of communications staff; in her view, a barrier to an effective impact investing strategy is that the people or teams driving the strategy don't bring in the opinions of other teams or staff from the start, and with communications teams in particular, this leads to an inability to understand the technicalities of the investment strategy as well as an inability to communicate about it, internally and externally (personal communication, April 7, 2021).

While boards of directors can be motivators in some cases, they are more often barriers to this work within foundations. Many interviewees commented that in many cases, the desire for foundations to do more with their investments comes from program staff or somewhere lower in the hierarchy of the foundation, but it often meets resistance when it gets to the board level, and is much more difficult to tackle with this bottom-up approach. Multiple people mentioned the likelihood that there's an investment advisor or a banker on the board of the foundation, and in those cases, they're much more steeped in traditional investment practices (M. Audette, personal communication, April 7, 2021). Christine Reyes also noted the dilemma many board members feel they face, as their first responsibility is to the organization and they take their fiduciary

responsibility very seriously; to them, impact investing may not feel like a sound financial decision (personal communication, April 13, 2021). Along those lines, board members are often attune to either the internal or external wealth managers managing the foundation's investment strategy, who often assume that foundations want to exist into perpetuity, and thus believe traditional investing will generate the greatest financial returns in order to do so (S. Swift, personal communication, April 16, 2021).

As has been mentioned previously, the iron curtain between program and investment teams can present a barrier to foundations. The lack of communication between the teams can prevent an effective organizational impact investment strategy from taking hold (J. Dean, personal communication, April 16, 2021). While each team may be doing their own investment work through PRIs or MRIs, foundations aren't trained to look at integrated capital or consider how an integrated capital approach may serve their mission fulfillment (J. Astone, personal communication, April 15, 2021).

A primary barrier for many foundations simply comes down to the lack of staff capacity and/or expertise. For larger foundations, they have the resources to be able to attract, hire, and retain staff specific to impact investing, and staff with the needed expertise. Smaller foundations may not be able to dedicate an entire role or even staff time to working on a foundation's impact investing strategy or doing the necessary due diligence. Rachel Bass also noted that this is a particular barrier for non-endowed foundations, but that it can be rare for foundations to have an investment officer who knows how to invest and to then measure impact (personal communication, April 12, 2021).

Similar to a lack of shared organizational understanding, many interviewees foundations didn't even want to venture down the path of impact investing due to a basic lack of knowledge around the IRS laws governing impact investing. Many foundations may not even know that impact investing is legal, or even if they do, they're concerned about potential legal consequences, and so don't want to engage at all. James Cutler noted that many foundation legal teams may even say impact investing is not legal because it's not maximizing financial returns (personal communication, April 9, 2021).

Perhaps one of the largest barriers, not just for foundations but for the sector as a whole, is overcoming a misperception of impact investing in which people assume there has to be a sacrifice on financial return in order to create impact. Rachel Bass commented on the education gap that exists across the spectrum of market rate vs. below market rate returns, and foundations not truly understanding what constitutes an impact investment and how to gauge returns and risk (personal communication, April 12, 2021). In the end, many interviewees agreed that financial return on investments always won out over potential impact.

Finally, an additional barrier to an effective impact investing strategy is the number of outside wealth advisors, attorneys, and consultants foundations utilize. Rebekah Butler commented on this difficulty, that as a small foundation, they consult with an outside tax attorney, but if they're not in tune with the foundation's program-alignment, they don't like to use them (personal communication, April 12, 2021).

Key Findings for Research Question 3

When asked how foundations are communicating about these activities to stakeholders, essentially all interviewees agreed that there is either no communication at all, or the communication could be greatly improved. Several of the same themes that addressed RQ1 and RQ2 also resurfaced, including the importance of having communications staff in the loop on your investment activities from the start. Jen Astone also believes there's a hesitation on behalf of foundations in sharing any of their impact investing activities because of the influence of the traditional investment sector, who doesn't typically share any of this information, either due to legal reasons or want to preserve trade secrets (personal communication, April 15, 2021). However, multiple interviewees also agreed to the importance of communicating about this work, and using it as an opportunity be transparent and share your story; Sonja Swift went further in commenting that it felt like a responsibility to share your story in order to move the industry down a path of more impact investing (personal communication, April 16, 2021).

Again, the lack of shared language created difficulty in communicating about investment activities. What one foundation may define as impact investing may differ from another foundation, making it difficult to have a larger conversation across the sector. The rapid growth

of the sector also means there's also new products, new tools, new language to discuss, and this can make communicating difficult (M. Audette, personal communication, April 7, 2021).

The idea of communicating about this work seemed in line with a foundation's greater attitude around transparency generally, for many interviewees. Particularly for the smaller family foundations, many often don't even have websites, and as they've shifted towards greater mission alignment in their investment practices, they've used that as an opportunity to create greater transparency across the organization, and create a website to share more about the foundation and about their investment practices (R. Butler, personal communication, April 12, 2021). For Christine Reyes, she viewed the public communication around all internal practices as part of a entire organizational shift towards greater transparency, accountability, and mission-alignment (personal communication, April 13, 2021).

Finally, while foundations may not always communicate their impact investing work publicly or externally, many interviewees engaged in informal communication and conversations with other foundation practitioners. For Jamie Dean, she said she rarely goes to a foundation's website or publicly available resources for information on their impact investing, but will have conversations with others on what they're doing, and share information that way (personal communication, April 16, 2021). So while this doesn't exactly create the public peer influence or push the sector towards greater adoption of impact investing, those who are engaged in the work often are communicating amongst each other.

Section 5: Implications

The Sector is Complex

If there's anything to be learned from this research, it's that the impact investing sector is complex. Foundations are just one actor in a much larger ecosystem, and while it can be intimidating or overwhelming, there's great potential for foundations to tap into the larger sector to learn from and partner with other players.

The Sector is Growing

The events of the past year have only sped up the growth of an already rapidly growing field. The increased focus on organizations and how they're utilizing their resources to their full potential, and if those activities align with their values, has generated great interest in impact investing for foundations and beyond.

Spending Down can Free Up Impact Investing Opportunities

Part of the increased scrutiny of foundations and their resources revolves around the question of existing in perpetuity, or spending down to ideally create greater impact in this moment. With a spend down foundation, you're not so focused on meeting your 5% annual payout and generating a financial return with the remaining 95%. As more foundations mull whether or not they should spend down in the coming years, this could free up more capital to potentially put towards impact investing.

The IRS Could Clarify Investing Rules in the Future

Only time will tell, but the recent interest in impact investing could lead the IRS to clarify laws around PRIs and MRIs for foundations, and make it easier for foundations to engage in the sector without fear of breaking the law. Some interviewees floated the possibility that in the future, the IRS will not only allow and make simpler impact investing, but require foundations and/or nonprofits to engage in impact investing or more mission-aligned investing.

Potential of Donor-Advised Funds

The explosion of donor-advised funds in recent years has created another potential source of capital for impact investing. Community foundations that house donor-advised funds in particular could either see a heightened interest from their donors in impact investing opportunities, or could proactively engage existing or potential donor-advised fund holders in impact investing. Some community foundations already have existing program-related or mission-related investing pooled funds as an option for their donors to opt in to, but these pooled funds could become the standard for donors as a part of their fund in the future.

As a result of the literature review and expert interviews, the following are recommendations for foundations and grantmaking organizations either looking to get started in impact investing or to deepen their impact investing practices.

Section 6: Recommendations

Recommendation 1: Shared Language

One of the most common themes throughout the literature review and interviews was around the incredibly vast array of impact investing terms, coupled with the lack of industry standard definitions. While The GIIN is often cited as the industry leader in research, and Mission Investors Exchange houses a fundamental terms and concepts resource, there is not a single source of truth for many of the concepts in impact investing. This means that definitions and uses across organizations vary widely, and it can often feel like people or organizations are speaking different languages.

In an ideal world, and potentially some time in the future, the IRS will provide clearer guidance and concrete industry-wide definitions of impact investing terms for foundations, which will provide clarity and create a shared sector understanding. In the meantime, though, foundations can work to create an internal glossary of impact investing concepts and terms, and define what they mean in relation to their own specific organizational work and impact investing strategy. Greater internal communication and alignment can lead to greater organizational impact, and down the line, hopefully greater sector impact.

Recommendation 2: Break Down the Iron Curtain

With this shared language established within a foundation, foundations can begin the work of breaking down the firewall between program and investment teams. A greater understanding of impact investing concepts and terms can lead to a greater understanding of an integrated capital strategy, and greater alignment of strategy and investment activity across both the program and

investment sides of the foundation. Holding joint or cross-team meetings can be a first step in breaking down this iron curtain, where both sides can learn more about the work of the other, understand its value, and understand how both types of PRI and MRI work can contribute towards the foundation's mission fulfillment.

With this increased communication, foundations could ideally generate a new, organization-wide investment strategy, encompassing all resources at the foundation's disposal. This can also be helpful if the foundation relies on outside investment or wealth managers. With a clear organizational strategy defined, this can more easily be conveyed to and hopefully supported by outside actors in the foundation's investment ecosystem.

Recommendation 3: Be Transparent

If foundations are engaged in impact investing, they are also likely to have larger organizational values around accountability and transparency. These values benefit the organization as a whole, beyond just their impact investing, and they can use their impact investing activities as a reason for greater transparency and a true demonstration of values. As many interviewees noted, sharing the why and the how behind their impact investing strategy can be an opportunity for many foundations to move the greater philanthropic sector towards greater mission-alignment. Even if a foundation is not ready to engage in impact investing, the reasons why they may be interested in the first place can lend themselves to greater transparency in other aspects of the organization, such as vendor policies, employee benefits, grant processes, and more, and create an opportunity for the foundation to take a holistic look at all of its practices to see where there can be greater mission-alignment.

Recommendation 4: Start Somewhere

Overall, across the literature review and expert interviews, there was consensus that foundations should just start somewhere with impact investing. While the authors of most of my resources and my interviewees are perhaps a bit biased, as they are all passionate about the potential of impact investing, the benefits of impact investing over traditional investment are undeniable, from the perspective of a mission-oriented organization like a foundation. Whether it's starting

off with a handful of PRIs that count towards the 5% annual payout rate, or creating a small carve-out of your endowment to experiment with mission-related investing, doing something is better than doing nothing. And once a foundation gets started down the path of impact investing, the work becomes iterative. As the field continues to grow and evolve, hopefully foundations will continue to see the value in and be less afraid of trying new investment strategies to generate impact.

Section 7: Conclusion

This project explored how foundations considered impact investing activities as a part of their mission fulfillment, and how foundations could improve their impact investing practices. Through the literature review exploring the broader field of impact investing to the expert interviews sharing experiences within individual foundations, it's clear that the field of impact investing is ripe with opportunity for foundations and grantmaking organizations. The sector is still defining itself, and within that, foundations have a chance to take a leadership role within the sector. As opposed to just engaging in impact investing, foundations could identify and create investment opportunities, share those with others, and communicate publicly about their investment strategies.

Due to time and resources, this research was limited in its scope. The selection of interviewees was influenced by the interviewees' work within the impact investing sector, and future research could expand upon this project to include a wider range of expert opinions, including from those who are not currently engaged in impact investing. A larger variety of foundation types could also be surveyed, as well as a survey of how interested foundations who are not currently steeped in this work even are about impact investing.

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Prior to NCG, Zoe interned at Kiva, where she helped hundreds of small business owners successfully fundraise to obtain 0% interest loans. She has also worked in the office of U.S. Representative Nancy Pelosi in Washington, D.C.; in the office of Rt. Hon. Caroline Flint in the Houses of Parliament in London, England; and on several political campaigns. She holds a BS in Political Science from Northeastern University in Boston, MA, and is currently pursuing a Masters in Nonprofit Administration from the University of San Francisco School of Management. Zoe also serves high tea in a British tea room, and spends her spare time baking, being outdoors, and petting every dog she comes across.