

# Boosting Philanthropic Impact Through Mission Investments

By Tracy Kartye

For more than 60 years, the Annie E. Casey Foundation has worked to improve outcomes for vulnerable children and their families. Our objective to see low-income families achieve financial stability and raise healthy, well-educated children in stable permanent families in supportive communities requires a tremendous amount of resources.

The foundation has always exceeded the minimum payout requirement of 5 percent, but it was not until the late 1990s that we decided to explore social investing as a way to put even more of our assets to work for our mission. It was no small feat to convince key staff that the potential financial and social returns generated through the portfolio would be worth the additional complexities that would come with the accounting, due diligence, tax and other challenges.

Ultimately, in 1998, the foundation's leadership came to believe that the potential payoff in mission investing outweighed the risks and authorized up to \$20 million of the endowment for program and mission-related investments that improve the lives of vulnerable children and their families. This watershed moment in the foundation's history effectively established the commitment to use more of our endowment in pursuit of our mission without compromising the foundation's future.

However, it was one thing to make the commitment and something entirely different to implement it. In many ways, Casey's initial experience reflects the norm. We made few investments in the first five years: the learning curve

was steep, the available resources were few, and the hurdles were significant.

At its core, the Annie E. Casey Foundation's trustees and senior leadership believe that we must employ all of the tools available to philanthropy and as much of our assets as possible to achieve our mission – all without jeopardizing the foundation's sustainability. Social investing represents one such tool. Although it took time to develop

our approach, the first few investments – mission-related deposits, loans to community development financial institutions, and an investment in a community development venture fund – convinced the trustees that this was a viable strategy for the foundation, and in 2003, they formally carved out an allocation of \$100 million for social investments.

With this commitment came a renewed energy and focus. The foundation hired staff dedicated to making social investments and placed them in the investment unit because we chose to invest from the endowment rather than the grant budget. Social investment staff were charged with sourcing and underwriting investments in direct collaboration with program grantmaking staff who are experts in such areas as education, juvenile justice and child welfare, community redevelopment, asset building and workforce development. This approach requires significant collaboration but ensures a willingness to take on substantial risk for investments that are closely aligned with the foundation's mission, despite our high underwriting standards.

In 2010, the allocation was increased to \$125 million, almost 5 percent of the endowment, in large part because of an ability to demonstrate the effectiveness of the model. We have established processes and systems that allow us to identify investment opportunities aligned with our mission, monitor the investments and evaluate both our financial and social impact performance.

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Today, the portfolio is diverse and emphasizes Casey's priorities with commitments of more than \$100 million across seven different foundation program areas, including investments that support affordable housing development and community facilities; job creation through micro and small business financing, and development of services that will ultimately improve outcomes for vulnerable children (see Figure 1). These investments have raised more than \$680 million in co-investment and leverage, not including the \$45 million in guarantees that have leveraged a total of \$130 million, primarily in support of the redevelopment of an East Baltimore neighborhood.

From a financial return perspective, the portfolio has met and at times exceeded expectations. The foundation has been willing to use its balance sheet in creative ways: investing deposits in financial institutions, debt, equity or even guarantees in financial intermediaries, and in some cases directly in projects all with below market to market rate financial return targets.

The careful underwriting and structuring of each investment has resulted in strong financial performance with realized losses of less than 1 percent

and a current one-year return of about 1 percent overall. In fact, in 2008, the social investment portfolio had the highest return of any endowment asset class and our estimated five-year return is on target, at 3.4 percent. The portfolio has proven to be very stable because the majority of investments are loans to community development financial institutions (CDFIs). CDFIs are private institutions dedicated to delivering responsible, affordable lending to help low-income, low-wealth and other disadvantaged people and communities join the economic mainstream. For Casey, investing through CDFIs has proven to be effective because they increase program impact by leveraging co-investments and revolving funds for multiple projects – and more importantly, they develop lasting infrastructure to convey capital in geographies or program areas that will last far beyond the term of a Casey social investment.

As each investment is made, Casey investment and program staff work closely with the investee organization to establish social impact metrics and goals, which are measured annually. A number of different impact indicators are tracked, the most common of which are included on the following chart,

which provides a snapshot of key indicators and progress toward achieving the portfolio's social impact objectives. For example, our expectations around jobs and quality child care have been exceeded and our investments continue to support the creation of affordable housing in targeted places.

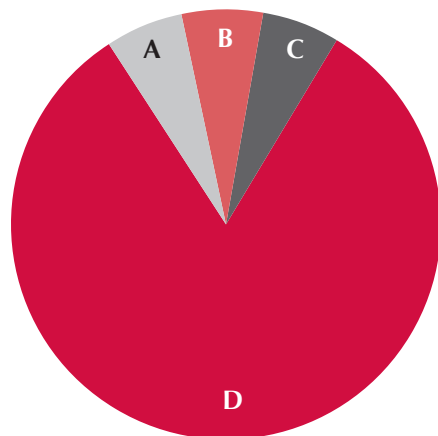
These impact indicators, however, tell only part of the story. As each investment is exited, we conduct a review and document impacts that are not evident from the impact metrics. For example, during the term of our investment in Home Funders Collaborative LLC, 2,121 units of affordable housing, including 684 units for extremely low income (ELI) families, were financed. The fund leveraged more than \$200 million in public and other private resources since 2003 to address the housing crisis for ELI families in Massachusetts. Also, these indicators do not capture the public policy and advocacy efforts of Home Funders that resulted in targeting more resources toward homeless and ELI families. Although Casey exited the fund when our loan matured because of shifting program strategies, Home Funders continues to finance the development of affordable housing in Massachusetts and advocate for policy changes that support low income families' ability to live in safe, stable and affordable housing.

At Casey, there is always a push to refine and better track the social impact results, but this is limited by what data can be obtained realistically and cost effectively. With each investment we exit and analyze, we attempt to identify lessons learned so that we can better target our investment capital and implement social impact targets that will have a measurable impact on positive outcomes for children and their families.

The foundation's commitment to utilize more of its assets for mission purposes has not been confined to our own activities. We have actively encouraged

**FIGURE 1: SOCIAL INVESTMENT PROGRAM ALIGNMENT**  
Actual Based on Commitment (Millions) as of 9/30/12

- A. Access to Capital (MRD) \$5.9 – 6%
- B. Economic Development \$6.4 – 6%
- C. Child Welfare \$6.0 – 6%
- D. Housing & Community Development \$84.1 – 82%



**Total Assets Committed: \$102,363,000**

**TABLE 1: KEY IMPACT METRICS OF ANNIE E. CASEY FOUNDATION'S SOCIAL INVESTMENTS**

	Total Projected	Actual to Date (12/31/11)	% Achieved to Date	Projections Through
Charter school slots	6,300	2,065	33%	2016
Child care slots	175	329	188%	2011
Commercial space developed (sq ft)	2,174,082	472,982	22%	2039
Jobs created	4,293	7,631	178%	2017
Housing units developed	12,485	2,646	21%	2039
Affordable housing units developed	5,233	2,389	46%	2039
Small businesses financed	301	163	54%	2017

and supported other foundations in their efforts to do the same and have seen tremendous growth in the field since we got started. A 2010 Foundation Center survey found that one in 10 U.S. foundations were interested in increasing their use of program-related investments.

The resources available to help these foundations engage in mission investing have increased exponentially over the past 10 years, and this year the PRI Makers Network integrated with the More for Mission Campaign. This merger created a central point of information for foundations looking to access social investing resources regardless of their position within the organization. The resulting entity, the Mission Investors Exchange, currently boasts a membership of more than 200 foundations and affiliated organizations. MIE works with other affinity groups such as the Global Impact Investing Network, Council on Foundations and Confluence Philanthropy to make it easier for foundations, regardless of their missions and return objectives, to find resources, learn and ultimately connect with likeminded investors.

As foundations become savvier at mission investing, new tools and resources will need to be developed.

Foundations will have to manage tensions related to mission and geographic targets, financial return objectives and leverage goals. New resources and tools should facilitate deal sourcing and evaluating potential social impact, which can come with a new set of challenges. As mission investing becomes more standardized, it could conceivably be harder to find investments that fit narrowly defined mission and geographic targets. The demand for social investment capital also exceeds the supply of any one foundation, so it is increasingly important to find ways that make it easier to aggregate capital, which again can make it more challenging to find investments that fit the criteria of the foundation investor. Given the nascent stage of the field, there also needs to be more research and evaluation, like the Impact Investor Project, which will analyze the performance of impact funds and the standards of investors to clarify components of strong impact investments and inform development of new investment products and tools.

The case for mission investing is demonstrating that philanthropy can be effective and creative when it comes to using more assets toward achieving so-

cial good, and in fact can be more impactful by utilizing capital in the right way at the right time. For example, a mission investment can result in positive social outcomes when there is a source to repay the investment and the amount of capital needed to pilot, test and bring small projects to a broad or national scale exceeds the resources available in the foundation grant budget. The Casey Foundation strongly believes that loans or equity investments are sometimes smarter, more appropriate and more effective than grants to support mission-relevant organizations because they can buy time, reinforce business discipline, create internal capacity, build credibility and demonstrate market viability. They require more collaborative, synergistic and mutually accountable relationships, and are a practical way to put more charitable money to work for mission purposes.

With strong systems and investment policies, and constant pressure to improve impact measurement, mission investing ultimately can increase the amount of capital invested in ways that improve critical outcomes. ■

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