

PHILANTHROPY REPORT

INSIDE The List New York area's largest foundations **PAGE 17**

'I think people just want to align their investments with their social values'

—Andrea Phillips, VP, Goldman Sachs Urban Investment Group, Page 18

Charities turn to Web to get cash

Crowdfunding seen as a way to raise money quickly, draw young donors

BY JUDITH MESSINA

After Superstorm Sandy, the New York Foundling, one of the biggest social-services agencies in the city, wanted to deliver food and water to the children and families the organization works with. But with its servers down, it had no way to solicit the needed additional donations.

Instead, it enlisted Deposit a Gift, an East Harlem-based crowdfunding site. Within 24 hours, the Foundling had a Web page, an email blast to donors and alerts on Facebook and Twitter. The result: a fast \$20,000 to help 100 families.

29%
SHARE of total crowdfunding tied to donations

"We didn't have time to think about whether it was the right or wrong thing to do," said Jennifer Malichio, vice president of development for the organization, which is working to reduce its dependence on government funding and diversify its revenue. "It was the only thing to do."

Emergencies, however, are just one reason why nonprofits are increasingly turning to crowdfunding to raise money and cultivate donors—and why a number of new companies are popping up to capitalize on this trend.

Though most charities are still feeling their way around the technology, some intrepid organizations are already using it for the majority of their fundraising.

Meanwhile, crowdfunding is providing them with something else: new data about donors that is helping the groups to better market their cause, whether it's vaccinating 100 kids against polio in Haiti or providing breakfast for 20 homeless men on the Lower East Side.

"Crowdfunding is pushing development directors to become more like digital marketers," said

See CHARITIES on Page 16

MANY HAPPY RETURNS: F.B. Heron Foundation President Clara Miller is placing her entire \$300 million endowment on the line.

Shifting foundations

Putting money where their mouths are by investing in firms that advance social goals

BY THERESA AGOVINO

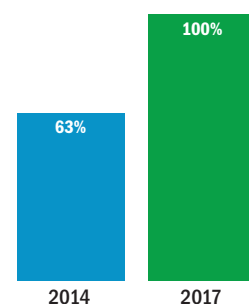
When Clara Miller took over the F.B. Heron Foundation, which focuses on fighting poverty, she was unhappy with what she saw. Not only were U.S. poverty rates stubbornly high, but income inequality also was on the rise.

"If our mission was to raise people out of poverty, we weren't doing very well," said Ms. Miller, who became president of the Manhattan-based organization three years ago. "We needed to do more."

So she took a rare, if almost unheard of, step in the foundation world—where typically only 5% of endowment principal is doled out to charity every year. Heron would move its entire \$300 million endowment into investments that provide both social and financial returns. By the end of this year, 63% of Heron's funds will be invested in such vehicles. Ms.

AIMING HIGH

Heron Foundation's goals for investing in social-impact vehicles:



Miller hopes to be 100% invested in social-impact causes by 2017.

That is a major departure from the typical foundation strategy of using the endowment solely to generate financial returns to fund grants to nonprofits. Heron is making the shift at a time when other foundations, as well as governments and corporations, are trying to find investments whose benefits extend beyond the financial.

In the past year, the Pershing Square Foundation has used its \$90 million endowment to make three social-impact investments, in addi-

See SOCIAL on Page 18

Social investing

Continued from Page 15

tion to the grants it makes. This past summer, the Michigan-based Kresge Foundation announced it would pour \$10 million into the Kingsbridge National Ice Center in the Bronx to help revitalize the surrounding neighborhood. And to facilitate similar efforts, Goldman Sachs Group Inc. started a social-impact investment fund that has attracted \$150 million from clients to finance projects such as affordable-housing complexes and health care centers.

Late last year, New York became the first state to introduce a “social-impact bond” for which investors are repaid based on whether certain targets are met. The state’s first such project: working with a nonprofit to reduce prison recidivism rates.

“There is a much larger market now in social- and mission-related investments,” said Brad Smith, president of the Foundation Center in New York.

The movement stems from several factors. There is a general realization that government and non-profits cannot solve all of society’s problems. What’s more, in a recent study, U.S. Trust found that half of high-net-worth individuals consider social and environmental impact an important part of their investment-making decisions—up from 45% last year. One-third of very wealthy investors have funneled money into such vehicles or are in-

terested in them, including 66% of millennials. In contrast, only 27% of baby boomers felt the same way.

“The young are helping drive the trend,” said Antony Bugg-Levine, CEO of the Nonprofit Finance Fund. “Millennials disregard the idea that your business, philanthropy and social priorities are separate. They just look at how to solve problems.”

Value alignment

Andrea Phillips, a vice president for the Goldman Sachs Urban Investment Group, said investor demand pushed the bank to start the fund. “I think people just want to align their investments with their social values,” she said. “[Social-impact investing] is not going to replace philanthropy, but it is another tool to address problems.”

Ms. Phillips declined to divulge the Goldman fund’s projected returns. Separately, 46% of those surveyed by U.S. Trust said they would accept lower returns from companies that have a greater positive social or environmental impact.

Yet experts say that social-impact investments don’t necessarily mean lower returns. If more money were invested in such vehicles, the effect could be enormous. Even investing more endowment money from foundations could create a massive pool of money for charitable projects. Collectively, U.S. foundations have about \$715 billion in

WIDENING THE FUNDING POOL

EARLIER THIS YEAR, Rockefeller Foundation President **Judith Rodin** and co-author Margot Brandenburg wrote *The Power of Impact Investing: Putting the Market to Work for Profit and Global Good*, to help further the idea of social investing. The foundation has long been a supporter of the concept, having spent \$50 million over seven years to create tools to measure the returns on such investments.

Most social investing is now done by foundations and high-net-worth individuals. Ms. Rodin said **she’d like to see that pool widen to include more private capital.**

The book helps investors decide if such investments are appropriate for them. It discusses the questions investors should ask themselves before taking the plunge, such as whether they have impact goals and what types of returns they are seeking.

“We aren’t proselytizing to change everything and everyone,” said Ms. Rodin. **“It is about having more quivers to diversify your investments.”**

—THERESA AGOVINO

assets, and they give away some \$55 billion in grants a year, according to the Foundation Center.

Finding social-impact investments that provide good returns can be challenging, however. Reasons for that include a lack of tools to balance community benefits with financial returns from for-profit investments. There’s also concern that investments chosen for their social and financial benefits won’t generate high enough returns either to please investors or keep endowments’ coffers sufficiently filled.

That’s why the move by Heron, which was started in 1992 with an anonymous grant, is especially noteworthy.

“What they are doing is highly unusual,” said Phil Buchanan, president of the Center for Effective Philanthropy. “They are going in whole hog in a way we don’t usually see.”

Ms. Miller, who was president and chief executive of the Nonprofit Finance Fund before joining Heron, said the foundation’s new strategy has been difficult because of the lack of data to completely measure outcomes. Still, she thinks it is a vital change.

“Public foundations have a duty to employ all their assets for their mission,” said Ms. Miller.

‘Better balance sheet’

More specifically, she explained that the foundation decided that a major focus had to be on the creation of good-paying jobs because that would eliminate homelessness and hunger. Finding investments that earn decent returns while creating jobs that do not exacerbate social ills can be difficult, however.

For example, Wal-Mart has been a leader in reducing packaging

on consumer goods, which benefits the environment. But Heron won’t invest in the chain because of what the foundation described as wage issues.

Conversely, Starbucks, which has generated controversy over some of its employment practices, is in Heron’s portfolio because, Ms. Miller said, “overall, they are very good to their employees.”

Difficult as such investing may be to pull off, it has worked well for Heron so far. Ms. Miller noted that the foundation’s endowment earned 16% last year, and has averaged 11% over the past five years. To select its investments in both public and private companies, Heron works with outside consultants.

Earlier this year, the foundation lent \$5 million to Craft3, a nonprofit that makes loans to small businesses. It was part of a consortium including Wells Fargo and JPMorgan that lent a total of \$31.5 million to the Seattle-based organization. John Berdes, chief executive of Craft3, said Heron’s move from grantor to lender wasn’t a surprise, and is good for the organization.

“Capital delivered in the form of an investment is more powerful than capital delivered in a grant because it allows us to keep running,” said Mr. Berdes. “We are building a better balance sheet.”

Similarly, Kevin Parker, founder of the Kingsbridge National Ice Center, said the \$10 million investment from Kresge was vital to the project.

“They are top-of-the-line, so having them in validates the project,” he said. ■

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