



Impact Investing 101

February 2016

Impact Investing

An investment in an organization, company, or fund that is intended to achieve a positive social or environmental benefit alongside a financial return

Shareholder advocacy

Positive/negative screened investments

Program-Related Investments

- **Legally defined** in the tax code with three basic requirements:
 - **Primary purpose must be to achieve charitable purpose or mission**
 - **Generating financial return cannot be a significant purpose**
 - No politics or lobbying
- Counts toward 5% distribution; funds generally from program budget
- Historically, PRI expected rates of return were “below market” (e.g., low interest loans to non-profits)
- **Now an expanded approach to PRIs that embraces all asset classes, including direct equity (see new IRS guidance)**

Mission Related Investments

- *Not* legally defined construct like PRIs
- Typically made out of a foundation's endowment
- Typically understood as requiring “market rate” returns
- **New Treasury guidance: foundations can take into account mission-related aspects of an investment** even when the expected return is *less than* “market rate”
- Includes all types of asset classes and sectors

Types of Mission Investing

MISSION INVESTING ASSET CLASSES

DEBT								
Guarantees		Cash Deposits		Loans			Bonds	
Loan Guarantees	Bond Guarantees	Insured Deposits	Linked Deposits	Bridge Loans	Subordinated Loans	Senior Loans	Individual Bonds	Bond Funds

EQUITY			
Public Equity	Private Equity		Direct Equity Investments
Funds	Venture Capital Funds	Private Equity Funds	Individual Companies

Source: Adapted from FSG's *Compounding Impact: Mission Investing by U.S. Foundations*

Benefits of Mission Investing

Expanding impact by aligning and leveraging assets

- Recycle funds for additional charitable purposes
- Leverage additional philanthropic, private, and public capital
- Achieve greater scale and sustainability
- Test new ideas
- Demonstrate the commercial viability of programs
- Complement and inform grant-making and policy work
- Help grantees gain credit worthiness, enhance business discipline, and ultimately achieve long-term sustainability

Foundations in the impact investing ecosystem engage in a wide range of different sectors, program models, asset classes, and entry points into the field