Foundation Source

IMPACT INVESTING AND PRIVATE FOUNDATIONS

The Current Reality and Future Potential

Introduction

“Impact investing” is a broad, umbrella term for creating social or environmental impact while also generating a financial return. It’s a popular topic in the private foundation sector because donors increasingly want both their charitable grants and their investment assets to contribute to positive change

Examples of impact investing include:

- **Community Investing:** Opening checking/savings accounts at a nonprofit credit union or community development financial institution (CDFI) that lends its deposits to disadvantaged communities.
- **Negative Screens:** Screening out companies with objectionable practices from an investment portfolio, such as those that have interests in gambling, alcohol, tobacco, or firearms.
- **Positive Screens:** Actively seeking out companies with responsible Environmental, Social, and Governance practices, broadly referred to as ESG Screening or Socially Responsible Investing.
- **Program-Related Investments:** Providing loans or loan guarantees to charitable organizations.
- **Mission-Related Investing:** Investing in profit-making ventures that advance the foundation’s mission.

Given the potential of impact investments to “do well by doing good,” it isn’t surprising that interest in this topic has been increasing. However, beyond anecdotal evidence attesting to this interest, little is known about how private foundations are (or are not) putting impact investing into practice.

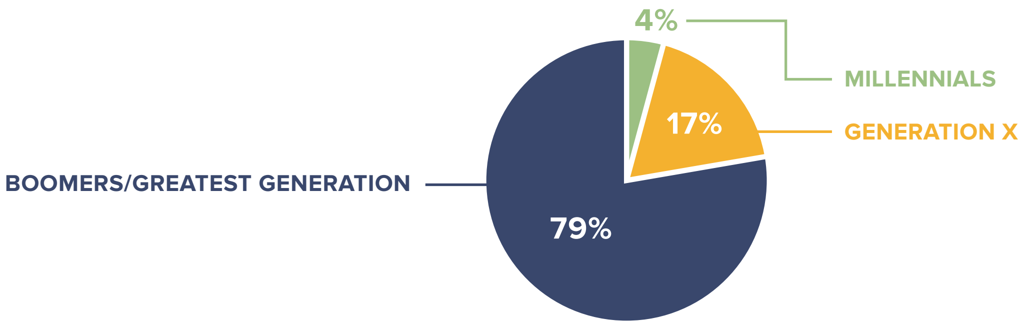
To address this dearth of data, Foundation Source, the nation’s leading provider of support services for private foundations, surveyed its private foundation clients about their interest in and experience with impact investing. Their answers provide valuable insight into the promise and potential of this emerging field for both private foundations and their advisors.

Summary of Findings

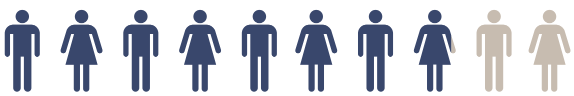
- **Foundations have a demonstrable interest in impact investing.** 88.2% said their foundations were "somewhat" interested in impact investing. Just 11.8% said that their foundations were "not at all interested."
- **The majority of foundations have embraced it, but many have not.** Although 48.9% say that none of their foundation's investment portfolio is currently allocated to impact investments, 51.1% have at least some percentage held as impact investments. ***Of those, 3.3% have 100% of their assets in impact investments.***
- **Their foundations have had limited experience with impact investing.** When asked to "check all that apply" from a list of impact investing examples that their foundation had tried, the most popular choice (53.8%) was "none." However, a significant percentage of respondents said their foundations had tried negative investment screening (27.5%), positive investment screening (22%), and/or investing in for-profit companies that advance the foundation's mission/interests (23%).
- **When donors opt for impact investing, they're typically motivated by philanthropic impact.** Whereas 30.4% said their primary motivation in undertaking impact investing was to create philanthropic impact while generating some financial return, 21.8% said they were principally motivated by financial return. 47.8% said they hadn't undertaken impact investments at all.
- **Reluctance to engage in impact investing can be attributed to lack of knowledge about the topic or concern about returns.** When asked why they might be uncertain about engaging in impact investing, 37.7% said they simply "don't know enough about it." Concern that it "will generate lower returns" (20.4%) was the next most common reason.
- **A belief that impact investing is less profitable persists.** The majority of respondents (51.7%) either "strongly" or "somewhat agree" that "impact investing means settling for lower returns," and 38.2% "somewhat disagree."
- **Conversations with their advisors on this topic are relatively rare.** 74.4% said they had not had a conversation with their financial advisor about impact investing in their foundation.
- **Of those who have had conversations with their advisors, the foundation usually is the initiator.** 79.2% raised the topic of impact investing with their financial advisors; just 20.8% said their advisors raised it first.
- **Most don't know what investments their financial advisors have to offer.** 63.7% said they were "unsure" about the variety of impact investments their financial advisor could provide. An almost equal percentage (64.4%) were also "unsure" about the quality of these investment products.

Q1: What is your generation?

122 respondents

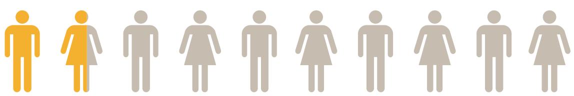


Note: This likely reflects the nature of Foundation Source's client base rather than relative interest of these different age groups.



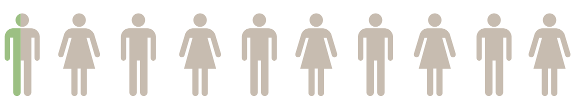
79%

BOOMERS/GREATEST GENERATION/AGE 54+



17%

GENERATION X/AGE 38-53

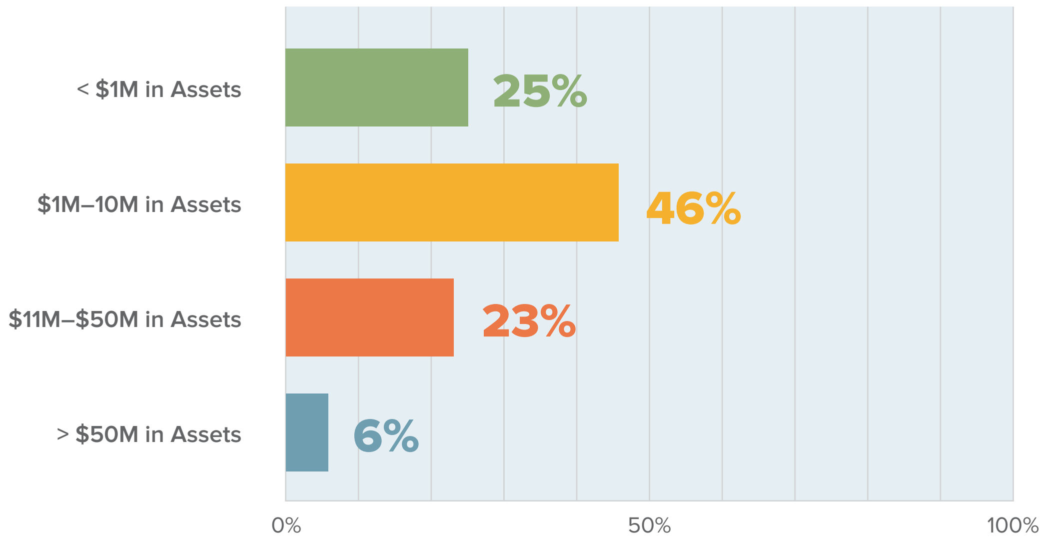


4%

MILLENNIALS/AGE 18-37

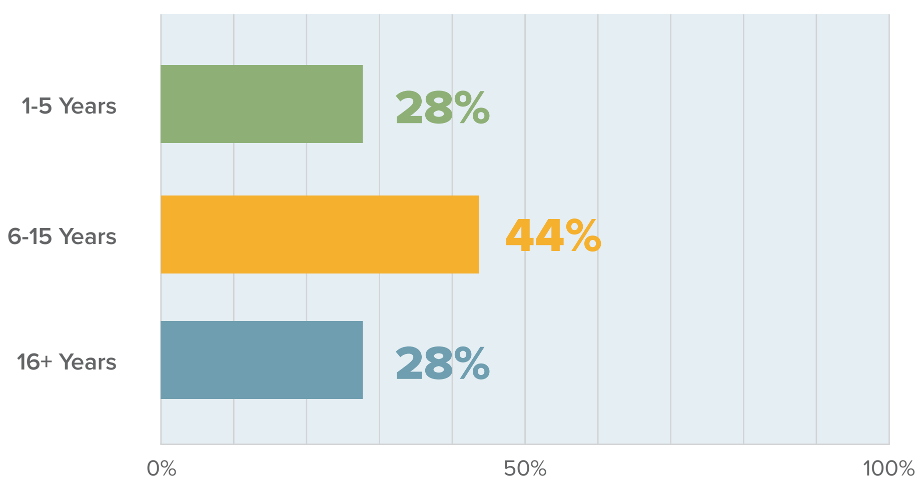
Q2: What is the approximate asset size of your foundation?

The largest percentage of foundations in the sample (46%) had assets between $1-10M. 25% had foundations of less than $1M; 23% had $11-50M; just 6% had over $50M.



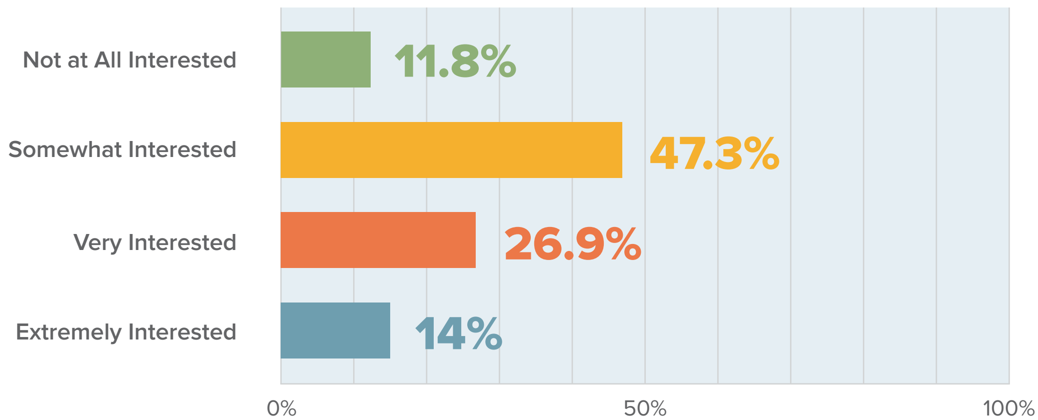
Q3: How long has your foundation been in existence?

The largest percentage of foundations in the sample (44%) have been in existence 6-15 years. An equal percentage of foundations were younger or older than that age range (28%).



Q4: How would you describe your foundation's interest in impact investing?

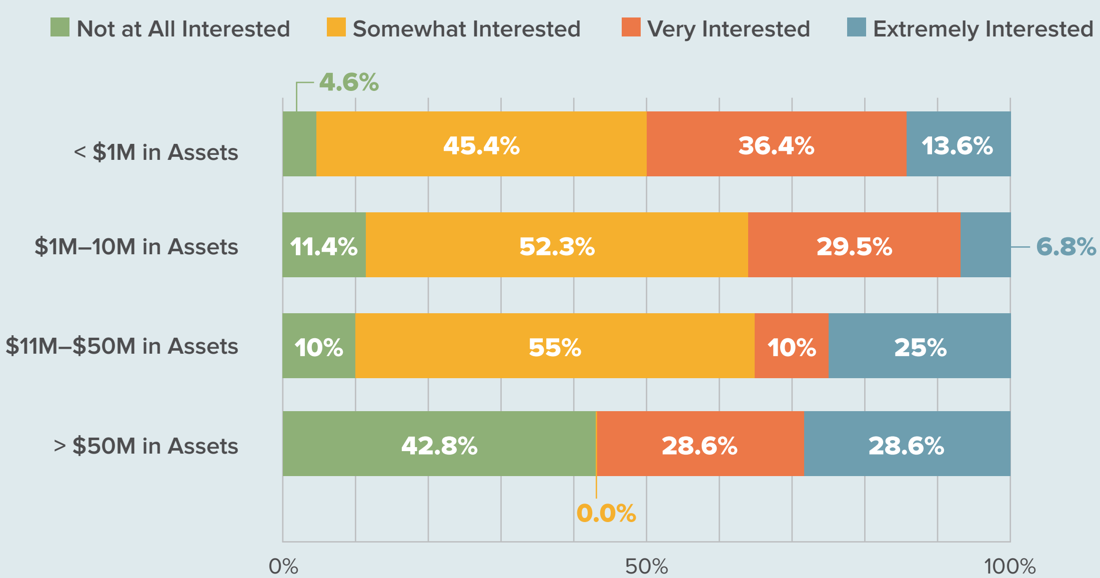
Foundations have a demonstrable interest in impact investing. 88.2% said their foundations were at least "somewhat" interested in impact investing. Just 11.8% said that their foundations were "not at all interested."



A CLOSER LOOK

Both enthusiasm and distaste for impact investing appear to increase with size.

Interest in Impact Investing by Foundation Size

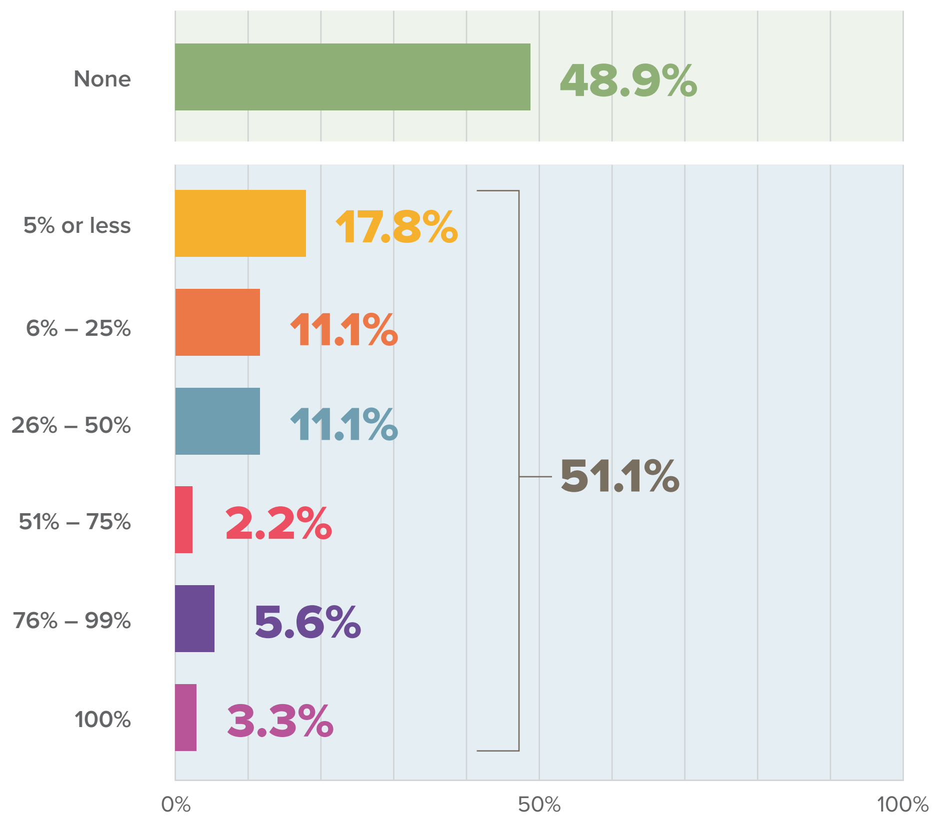


At the small end of the scale, foundations with assets of less than $1M reported broad interest in impact investing (50% were "very" or "extremely interested"), with just 4.6% saying they were "not at all interested." But as the asset size of the foundation increases, so too does the percentage of those that are "not at all interested."

The largest foundations in the sample, those with assets in excess of $50M, were the most polarized on impact investing: 42.8% identified themselves as "not at all interested," and 57.2% said they were "very" or "extremely interested." Not a single respondent in this group identified as "somewhat interested."

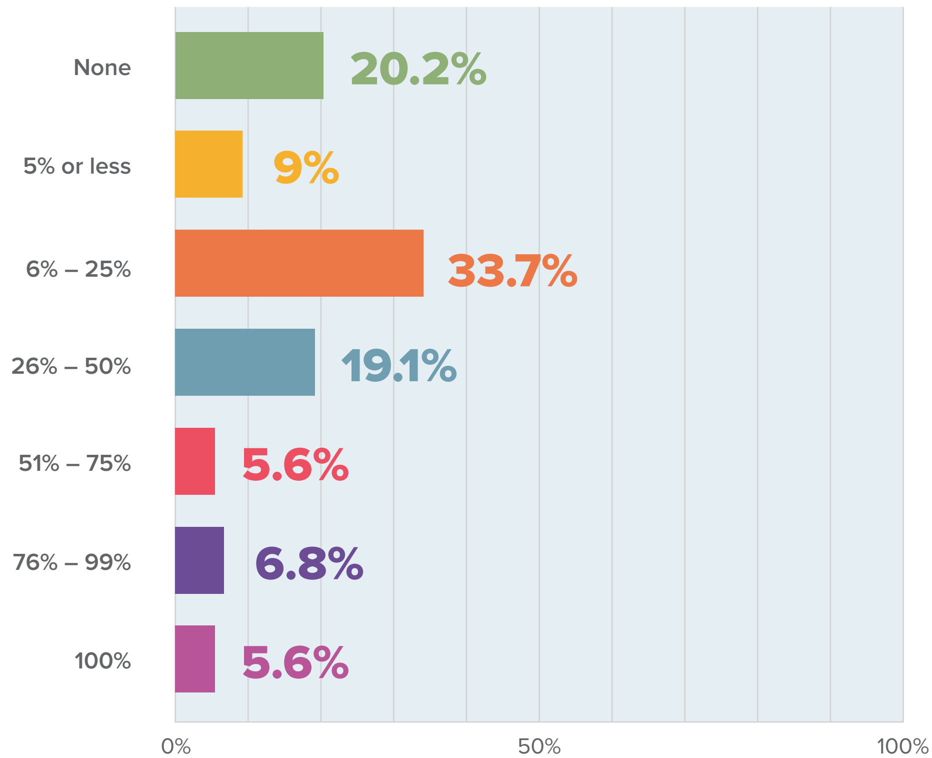
Q5: What percentage of the foundation's investment portfolio is currently allocated to impact investments?

Nearly half (48.9%) said that none of the foundation's investment portfolio is currently allocated to impact investments. However, 51.1% have at least some percentage held as impact investments. Of those, 3.3% have 100% of their assets in impact investments.



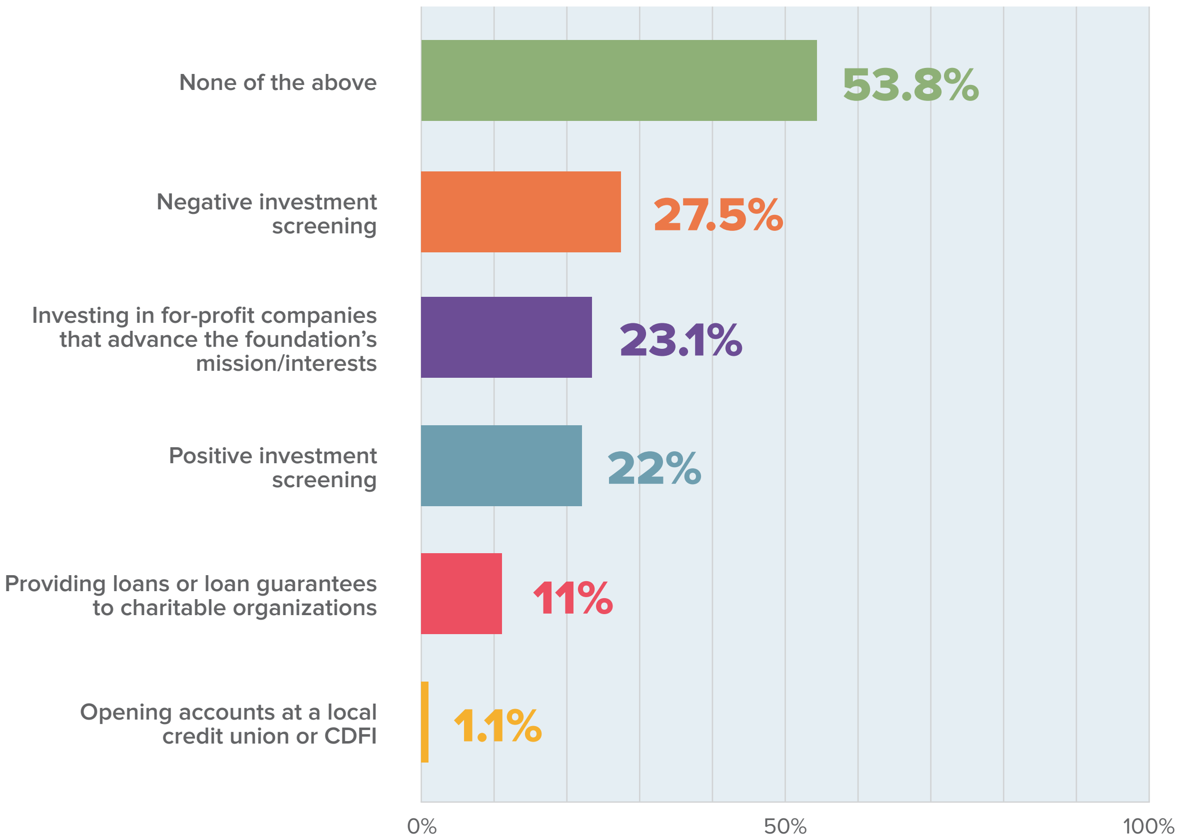
Q6: In your opinion, what percentage of the foundation's investment portfolio should be allocated to impact investments?

The most popular answer to this question was "6%-25%" (33.7%). However, 20.2% said that "none" of the portfolio should be allocated to impact investments. Nearly 6% were in the opposite camp, maintaining that "100%" of the portfolio should be held as such.



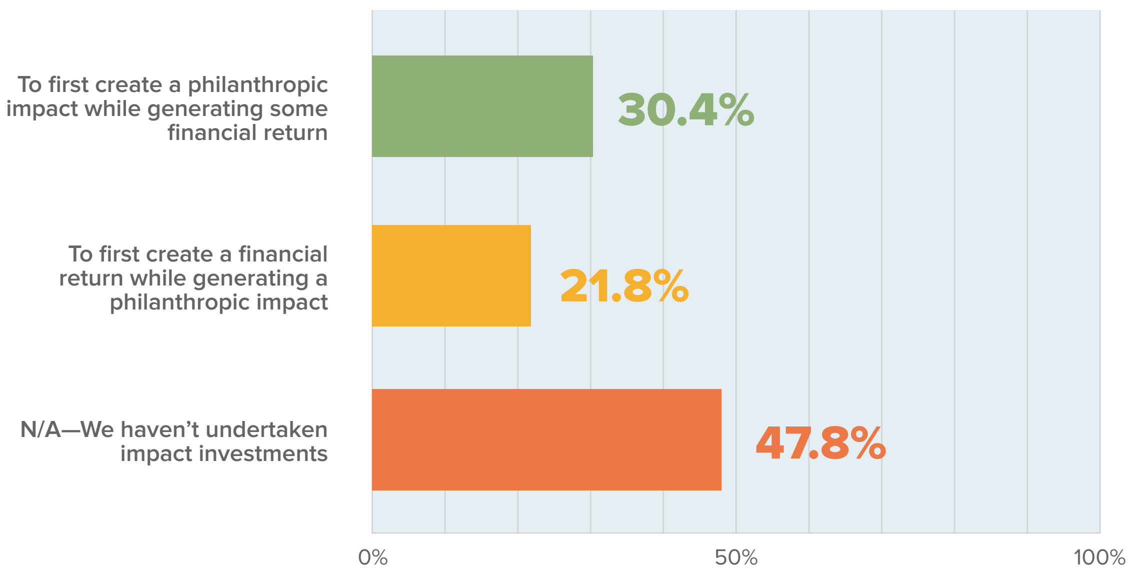
Q7: What kinds of impact investments have your foundation tried? (Check all that apply)

When asked to "check all that apply" from a list of impact investing examples that their foundation had tried, the most popular choice (53.8%) was "none." However, a significant percentage of respondents said their foundations had tried negative screening (27.5%), positive screening (22%), and investing in for-profit companies that advance the foundation's mission/interests (23%).



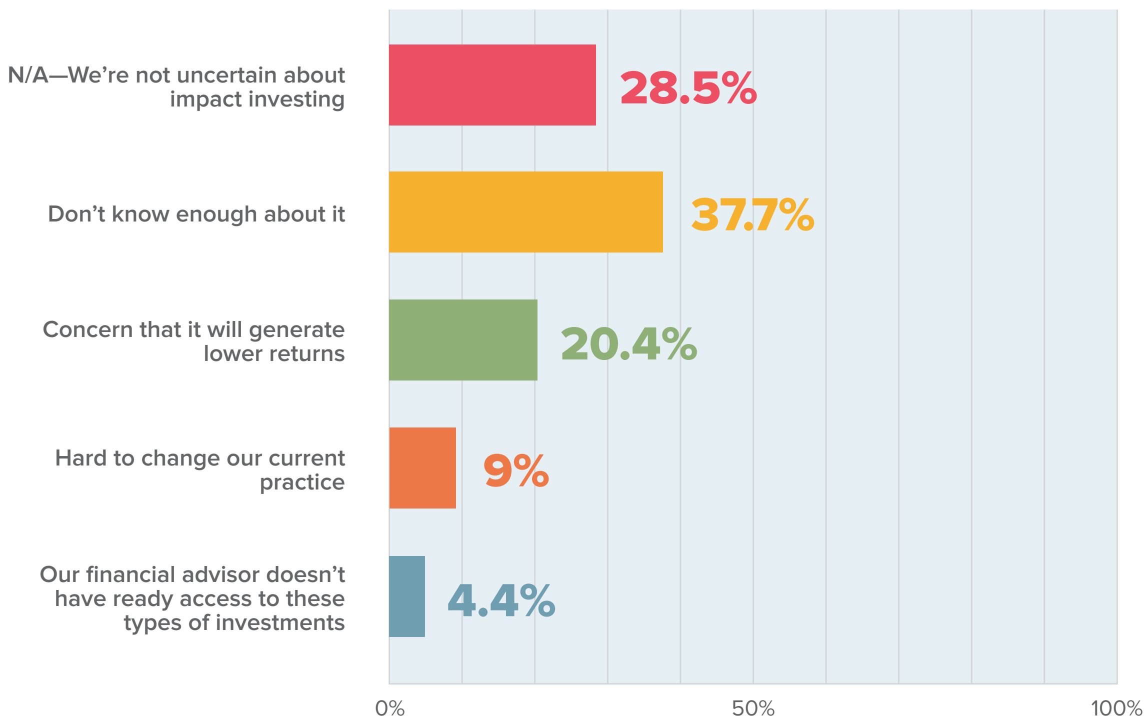
Q8: In undertaking impact investing, is your foundation's primary motivation: A. To first create a philanthropic impact while generating some financial return; or B. To first create a financial return while generating a philanthropic impact?

Of those foundations that had undertaken impact investing, 30.4% said their primary motivation was to create philanthropic impact, and 21.8% said they were motivated by financial return. However, 47.8% said they hadn't undertaken impact investments at all.



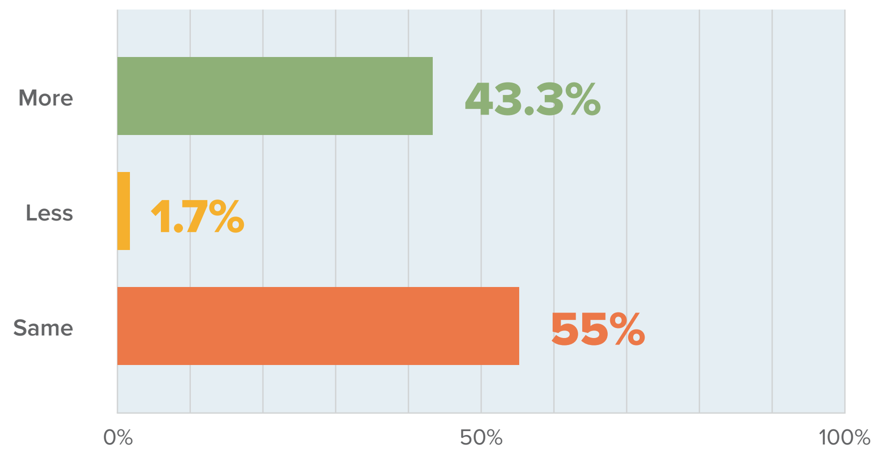
Q9: If you or other members of your foundation are uncertain about impact investing, what are the major hesitations?

28.5% said they were not uncertain about impact investing. Of those who had hesitations, 37.7% said they simply “don’t know enough about it,” and 20.4% said they were concerned that it “will generate lower returns.”



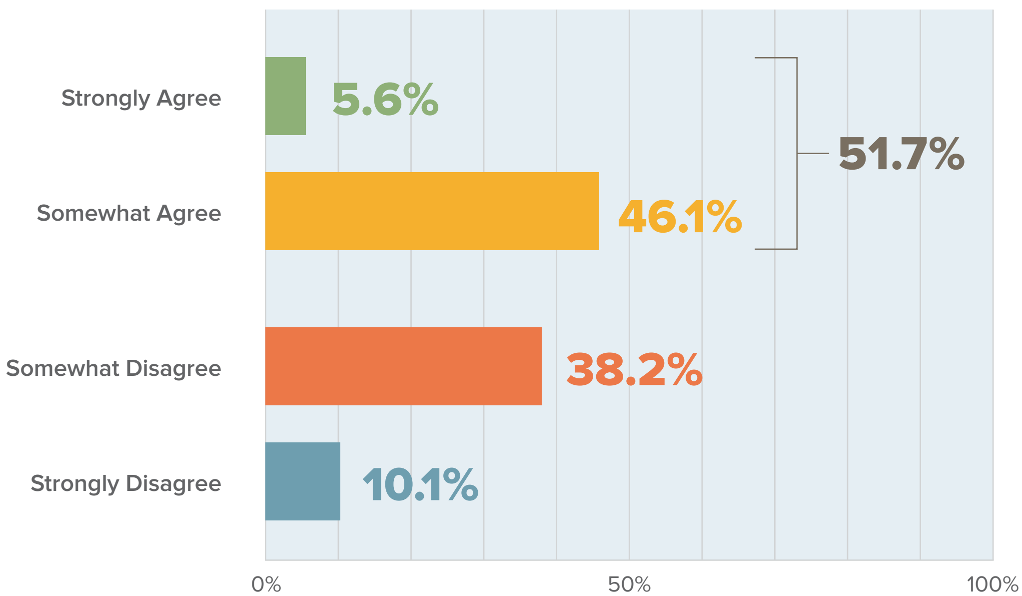
Q10: In the coming year, is your foundation likely to do more impact investing, less impact investing, or about the same amount?

Those who've tried impact investing said they're likely to do as much or more of it in the coming year. 55% said they planned to maintain the same level of impact investing; 43.3% said they planned on doing more. Just 1.7% planned to do less.



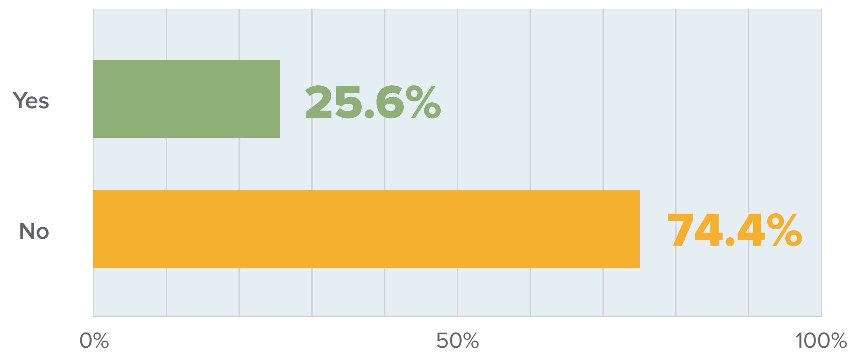
Q11: How do you feel about this statement? "Impact investing means settling for lower returns."

The majority (51.7%) of respondents are inclined to agree that impact investing necessitates a lower rate of returns. 5.6% "strongly agree" that "impact investing means settling for lower returns," and 46.1% "somewhat agree." Just 10.1% "strongly disagree."



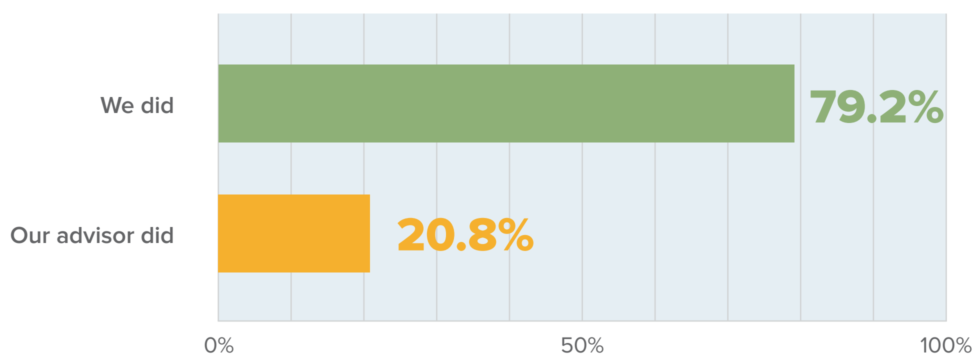
Q12: Has your foundation had a conversation about impact investing with your financial advisor?

Only a quarter of our sample (25.6%) reported that they'd had a conversation about impact investing with their financial advisor; the majority (74.4%) had not.



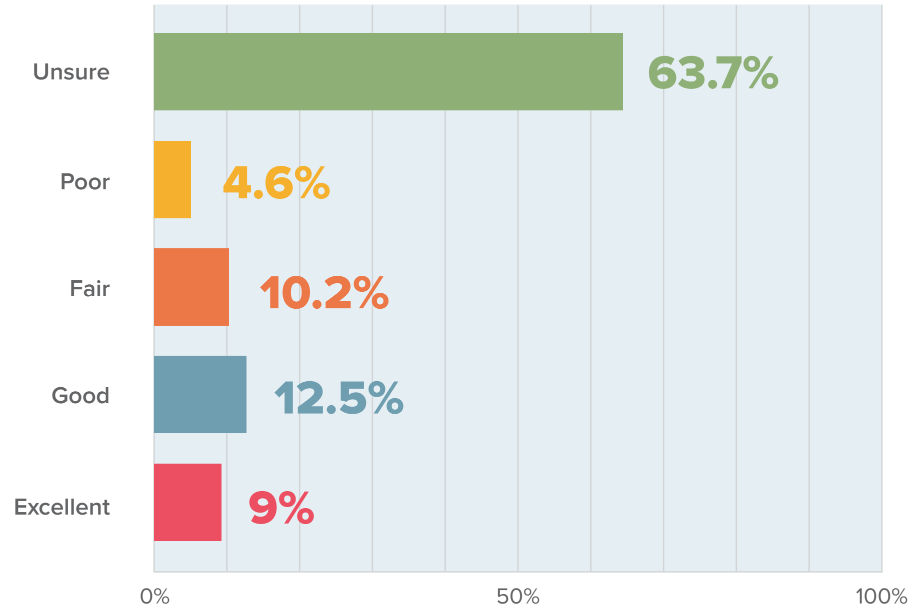
Q13: If you have had a conversation about impact investing with your advisor, who raised the subject?

Of those who have had conversations with their advisors, the foundation usually is the initiator. 79.2% raised the topic of impact investing with their financial advisors; just 20.8% said their advisors raised it first.



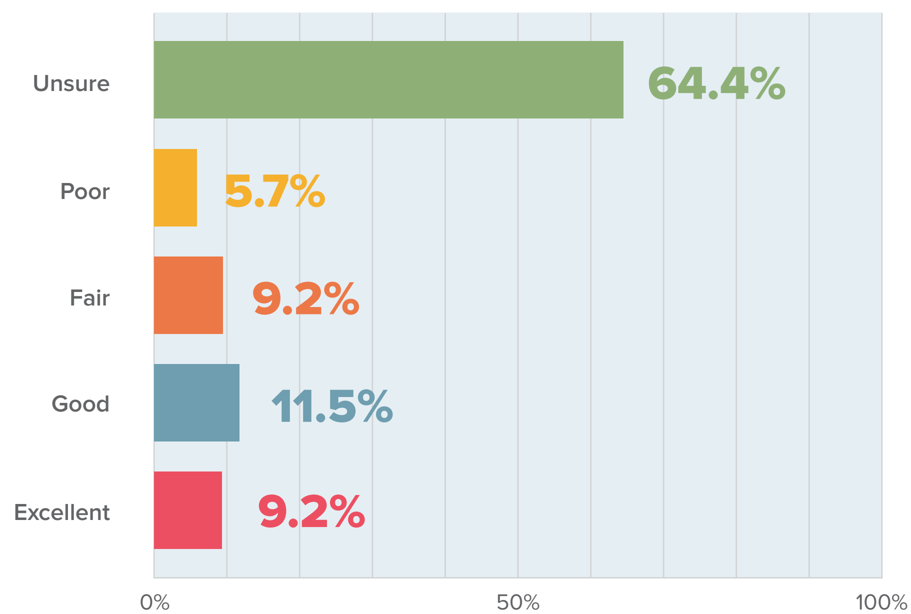
Q14: How would you rate the variety of impact investments your financial advisor can provide?

Most respondents (63.7%) said they were “unsure” about the variety of impact investments their financial advisor had to offer.



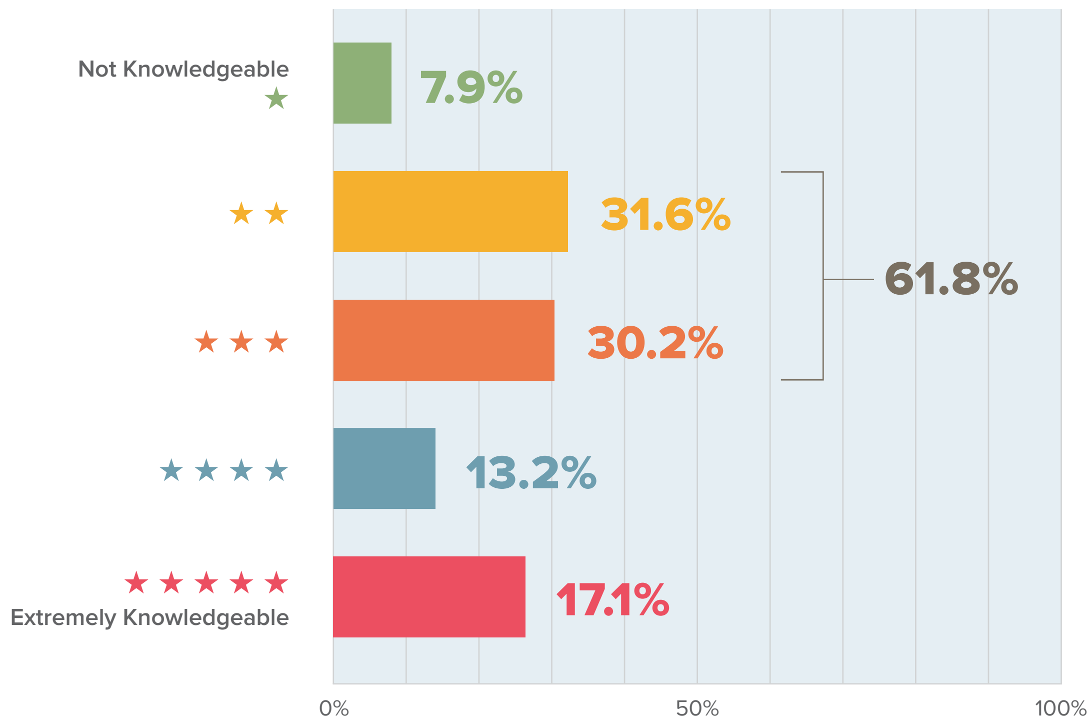
Q15: How would you rate the quality of impact investments your financial advisor can provide?

Similarly, 64.4% said they also were “unsure” about the quality of their financial advisor’s impact investment offerings.



Q16: How would you rate your financial advisor's overall knowledge about impact investing?

When asked to rate their advisor's overall knowledge about the topic on a five-point scale, the majority of responses (61.8%) were clustered between two and three stars. 17.1% of respondents said their advisors were "extremely knowledgeable."



Conclusion

Clearly, impact investing holds untapped potential for both private foundations and their financial advisors. Despite strong interest (88.2% said their foundations were “somewhat” or “very interested”), the vast majority of survey respondents (74.4%) haven’t even discussed the subject with their financial advisors. Of those few who *have* discussed it, most raised the topic themselves, suggesting that advisors could be missing an opportunity to provide valuable guidance.

If our survey is an indication, private foundations need and want more education about impact investing. Many say they’re hesitant to explore this method of investing because they simply “don’t know enough” about it or are “concerned about a lower rate of return.” In fact, many are inclined to agree with the debatable assertion that “impact investing means settling for lower returns.” Financial advisors have an important role to play in dispelling the myths and apprehension that may be inhibiting their private foundation clients from achieving more philanthropic impact with their investable assets.

Foundation Source

ABOUT FOUNDATION SOURCE

www.foundationsource.com

Foundation Source is the nation's largest provider of comprehensive support services for private foundations. Our complete outsourced solution includes foundation creation (as needed), administrative support, active compliance monitoring, philanthropic advisory, tax and legal expertise, and online foundation management tools.

Now in our second decade, Foundation Source provides its services to more than 1,600 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, accounting firms, and family offices as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut.

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