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SOCIAL IMPACT

Unlocking Endowments: Foundations Are Stepping Up Impact Investing

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The Ford Foundation's Roy Swan and Christine Looney and Mari Kogiso from the Sasakawa Peace Foundation discuss how foundations are leveraging their endowments to achieve social or environmental goals.

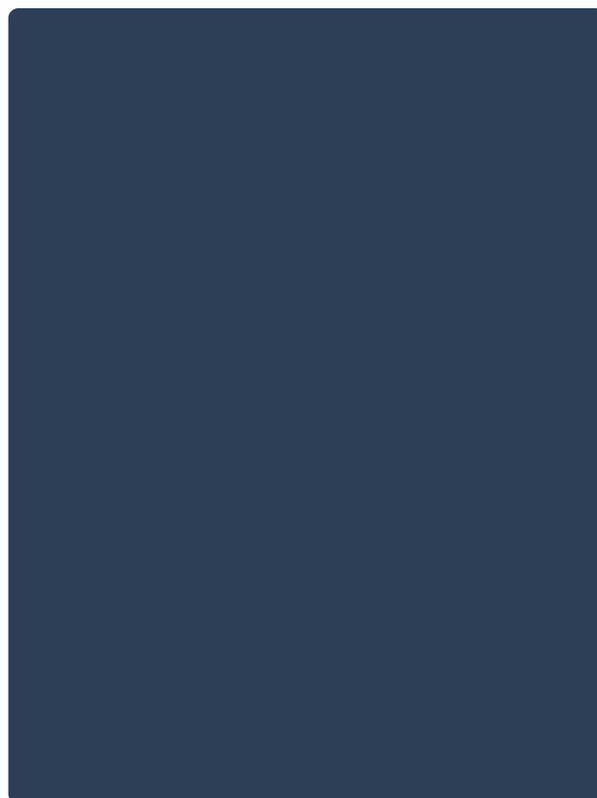
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Ten years after the Rockefeller Foundation coined the term “impact investing,” it has become a **\$250 billion market** and an expanding global movement. Today, foundations across the U.S. and globally are increasingly looking to use their endowments to achieve social or environmental goals.

The 82-year-old Ford Foundation in New York City and the 32-year-old Sasakawa Peace Foundation in Tokyo are among those that are aiming to attract a higher number of private investors to the impact investing space. They are using de-risking strategies that help provide safety nets for investors, and tapping publicity-shy family offices in Japan, among other approaches.

Roy Swan, director of mission investments at The Ford Foundation, made the case that impact investors could have greater certainty of returns than others that are purely profit-oriented. A sovereign wealth fund might find that it cannot guarantee a 25% return on investments in market-rate housing in the event of an economic downturn, he said. By contrast, investing in affordable housing with a lower target of an 8% return might make more sense.

“There is a shortage of affordable housing in [times of both] very strong markets and in very weak markets,” Swan said. “In fact, during weak markets the shortage becomes greater because more people will need affordable housing due to the unfortunate consequences of economic downturns. There is a lot of predictability about that 8% return and very low volatility with affordable housing investments.” Such logic might persuade, say, a sovereign wealth fund, to invest in affordable housing or blend it into its overall investment portfolio, he added.



Christine Looney, who works with Swan at The Ford Foundation as deputy director of mission investments, traced the foundation’s impact investing work to the late 60s, when it launched a new tool called “program-related investments,” or PRIs, to use its endowment funds to achieve social goals. Through PRIs, the

foundation could offer grants, low-interest loans, and equity investments “to catalyze social impact” in its chosen areas that included urban development, homeownership and microfinance.

“It was important for us to look at all of our assets, including the endowment, as part of our efforts to contribute to reducing inequality.”

–Christine Looney

The Sasakawa Peace Foundation, or SPF, is exploring innovative financing mechanisms to encourage the private sector to invest in its projects, especially those focused on women, said Mari Kogiso, director of gender innovation. Studies the foundation conducted around gender issues found that women in Asia face several hurdles in gaining employment, “especially unconscious bias,” she noted.

Those insights propelled the SPF to set up an investment fund to help women access capital to start their own businesses or to expand them. It recently created its Asian Women Impact Fund, which plans to invest up to \$100 million to support women and female entrepreneurs in Southeast Asia.

Swan, Looney and Kogiso shared insights about impact investing with Knowledge@Wharton for its podcast series “From Back Street to Wall Street.” The series is being produced in partnership with **Impact Investment Exchange (IIX)**, a Singapore-based organization that serves as a bridge between investors and development goals in Asia. (Listen to this episode using the player at the top of this page. You can find [links to the other episodes in the series here.](#))

Roots in Social Causes

The Ford Foundation was set up in 1936 with a \$25,000 gift from Henry Ford’s son, Edsel Ford. Its goals are “to reduce poverty and

injustice, strengthen democratic values, promote international cooperation, and advance human achievement.” According to its latest **financial snapshot**, the foundation’s endowment has an estimated market value of more than \$13 billion. The endowment generated “risk-adjusted returns” of 7% in 2016, and annualized returns of 9.2% over the five years ending Dec. 31, 2016. The foundation stated that it has “an equity bias to achieve high rates of return, favoring value-oriented investment strategies, and a diversified portfolio with a moderate level of risk.”

The Tax Reform Act of 1969 required endowments to invest 5% in charity, where their primary goal cannot be earning income or property-value appreciation. The Ford Foundation focused its initial PRIs on promoting minority business development, increasing the supply of low-income housing, and tackling environmental issues. Encouraged by the success of its PRIs, it began making “mission-related investments” directly from its endowment, where it aims to earn financial returns.

“It was important for us to look at all of our assets, including the endowment, as part of our efforts to contribute to reducing inequality,” said Looney. She credited Ford Foundation president Darren Walker with shaping a comprehensive strategy around impact investing during his five years in that role.

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Expanding the Reach

“Program-related investments were created to allow foundations like Ford

to use more of their capital such that [it] could be deployed in ways that was possible for them to be paid back,” said Swan. “Sometimes, a higher volume of capital would need to be deployed to be catalytic in the situation. Mission-related investments (MRIs) are made directly from an endowment, and are a way to even further expand the amount of capital that foundations could put to work.”

Most foundations will look to achieve the highest return on their investments, whether they are PRIs or MRIs, said Swan. “With

PRIs, there may be greater opportunities to go further out on the risk curve, versus the MRI, where there might be more of a focus on balancing the social and financial returns.” The Ford Foundation currently has a \$280 million program investment fund, and an allocation for up to \$1 billion of its endowment to be invested over 10 years through its mission-related investment program.

The foundation has identified two broad areas for its mission-related investments: affordable housing in the U.S, and financial inclusion in emerging economies. In advancing financial inclusion, the foundation aims to provide financial services to the underserved, such as banking, including mobile banking, and low-cost insurance products, Swan explained.

The foundation has made a few investments in affordable housing projects, but it is yet to invest in financial inclusion, said Swan. For its affordable housing investments, it has developed a strategy it calls “Housing Plus,” which includes the provision of social services to residents. The strategy “takes a more holistic view,” said Swan. “There is both the shelter that comes along with affordable housing, and services that may not be as easily attained in some of the neighborhoods.”

“With PRIs there may be greater opportunities to go further out on the risk curve, versus the MRI, where there might be more of a focus on balancing the social and financial returns.”

—Roy Swan

For example, the foundation has invested in a media fund “that is using the power of media and storytelling and TV to share different stories with a broader audience on equity and inclusion,” said Looney. Its investment strategies also take into consideration race and gender equity. Looney explained why she considered that

important. “It’s an incredibly important issue to take on, not only because we care about it, but also because we think it is an incredibly attractive investment opportunity that has been very overlooked in the market.”

Innovation and Collaboration

Innovations in the impact investing world are rooted in pain points investors typically face, such as the ability to mitigate risks. “Many of our nonprofit partners are limited in their ability to accept equity, and are dependent on their own earned income, or grant support, to scale their businesses,” said Looney.

Calvert Impact Capital, a not-for-profit investment firm in Bethesda, Md., is one such impact investor whom the Ford Foundation and MacArthur Foundation helped with a unique de-risking mechanism. In 2016, the two foundations came together in a limited partnership and invested \$7.5 million in Calvert over the next two years. That investment protects Calvert’s investors from any losses they may face in one of its impact funds.

Essentially, that vehicle allowed Calvert to attract more private investors by mitigating their potential risks. “Calvert is an incredibly well regarded social impact investment intermediary, and so for Ford and for MacArthur, it was an important organization to test out a new innovation in finance to help [it achieve] scale,” said Looney. “We will learn over time how to replicate this [elsewhere].”

Collaborations such as those between Calvert, Ford Foundation and MacArthur Foundation are an important means for impact investors to expand their reach. One significant catalyst for such partnerships was the Community Reinvestment Act of 1977, said Swan. The Act required banks “to stop discriminating against certain communities, and to allocate an appropriate amount of capital in those communities,” he noted.

The Community Reinvestment Act brings together the government, philanthropic entities and banks, or private capital, to create deals using what impact investors call “lasagna financing,” referring to its

multiple layers or tranches of capital. “There could be roles [in such ‘lasagna financing’] for foundations or others that have grant budget, or program-related investments, which are meant to be catalytic investments,” Swan said.

Lasagna financing brings opportunities to attract different types of investments, he explained. “There are roles for government tax credits as an incentive to drive private capital, and banks are able to allocate loan capital. There are lots of flavors and different appetites for those flavors. We’ve got a lot of big problems globally, and it’s going to take a lot of money and a lot of creativity” to address them. The Ford Foundation participates in such financing through its various investment vehicles, he added.

The foundation’s collaboration efforts include sharing its experiences in impact investing with other organizations. “We have been approached by folks in Africa, Asia and Europe to join in collaborative thinking processes so that we can share [what we’ve learned] — whether they be great successes, or some of the mistakes we have made — with the goal of moving everyone forward,” said Swan.

Swan is convinced that innovative financing structures, collaboration and shared experiences will enable the impact investing industry to attract more and more private investors. “I believe that investors will see that there are opportunities to invest in a way that can generate not just returns but also make a difference in an intentional way from a social-returns perspective.”

The Need for More Effective Tools

The Sasakawa Peace Foundation was established in September 1986 as a private not-for-profit foundation, with endowments from the Nippon Foundation and the Japanese motorboat racing industry. Its **stated goals** are “to respond to increasing natural disasters and social crises ... strengthen cooperation at all levels between our country (Japan) and countries abroad ... and search for a new governance model for human society.”

At the foundation, Kogiso found that “grant-making is not always the most effective tool” to meet its objectives, which is why it began exploring investing in projects as well. It fine-tuned that approach after tapping other foundations, especially in the U.S., to share their experiences in impact investing, she noted.

“In Japan, silence is gold, and [most investors] do not want to show all of what they have.”

—Mari Kogiso

According to the foundation, its Asian Women Impact Fund will bring public and private partners together to help provide women entrepreneurs with skills training and help them leverage online platforms “to increase access to capital, resources and new markets.” The women’s impact fund also aims to “catalyze more capital” from other investors in Asia “to build an ecosystem of investing in the region,” Kogiso said.

Among its partners is Microsoft, through its CSR (corporate social responsibility) arm, where it aims to provide its beneficiaries technology solutions and seed funding, along with opportunities to build networks in the Asian region.

New Investment Structures

According to Kogiso, innovations around new investment structures are needed to attract more investors. Toward that end, the Sasakawa foundation has been experimenting with new structures in “blended finance,” or a combination of development finance and philanthropic funding to attract private investors, she said.

The foundation is also trying to work with family offices and high-net-worth individuals to attract them to impact investing. “We see more and more of this movement coming especially from China, and some from Singapore and Japan.”

However, tapping family offices in Japan poses challenges that call for innovative solutions, according to Kogiso. “In Japan, family offices prefer to be invisible,” she said, “In Japan, silence is gold, and [most investors] do not want to show all of what they have.” That cultural issue is beginning to change somewhat, with some large corporations starting to establish charitable foundations, she added.

The fund also hopes to become “a focal point for investors in the social sector,” said Kogiso. Many potential investors are not well acquainted with the vocabulary of social investing, and have had limited experience in dealing with social entrepreneurs, she added. “We need more mutual understanding between investors and entrepreneurs.”



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