Investment Strategy for Social Justice Philanthropy

Executive Summary:

Investment strategy is a vital, potentially powerful, yet often overlooked practice even within the social justice philanthropy ecosystem. This brief explores several grantmaking organizations that intentionally aligned investments with their stated missions and values with the added goal of helping to make markets more equitable over the long-term. With an impact investing strategy, foundation staff and boards have the opportunity to make investment decisions that make constructive contributions to the world beyond mere financial returns. For some foundations, this strategy has become integral to a foundation's mission, goals, and strategies.

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For the purposes of this research, we used the definition of impact investing offered in 2015 by the Center for Effective Philanthropy (CEP): "investments that are made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." Generally, these investments have the goal of some positive social benefit.

Interestingly, 86 percent of foundation CEOs who responded in the 2015 CEP report, agreed with the importance of achieving financial return on investments. But only 36 percent of them prioritized alignment with philanthropic goals as part of an investment strategy. In light of this finding, we assembled an infographic to explore key investment strategy practices for funders who want to invest in a way that aligns with social justice philanthropy goals and values. Our research also explores a diversity of strategies employed by foundations, suggesting a promising trajectory for social justice philanthropy and investment strategy convergence.

We also spoke with staff at three foundations (Surdna Foundation, The Cleveland Foundation, and the Chicago Community Trust) that have integrated impact investing into their philanthropic practice. Four themes emerge from this research. First, investment strategy and impact investing need to be practiced over the long-term. Second, working with investment managers who have diverse identities and experiences and varied networks as well as shared values with foundation staff is a key strategy. Third, including and bringing board members along, through open and ongoing communication and intentional education is critical to long-term success. Fourth, a tiered approach to impact investing, such as a pilot program may help ease the organization's transition to less traditional investments and strategies.

Impact investing is surrounded by a lot of jargon. Therefore, we've compiled a terminology guide to help readers navigate our brief. If you have questions, comments, or ideas, please don't hesitate to reach out to us at the Sillerman Center via email, sillermancenter@brandeis.edu.

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The Sillerman Center, based at Brandeis University, informs and advances social justice philanthropy in the United States. We engage the philanthropic community through convenings and presentations, publications, educational courses, fellowships and scholarships, competitive grant contests and through collaborative partnerships with grantmakers and social justice organizations.

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Terminology:

Mission-related investments (MRIs) – MRIs are investments that align with a funder's philanthropic goals and seek to generate a competitive rate of return in the market. MRIs do not count as part of a foundation's annual 5 percent minimum payout requirement.[1] MRIs "aim for positive social impact while contributing to the foundation's long-term financial stability and growth."[2]

Program-related investments (PRIs) – PRIs are a "tool for spurring new innovations and attracting private capital to support the activities [foundations] care about."[3]

Community development financial institutions (CDFIs) – "Foundations can extend loans either to individual organizations or to small businesses, or they can work with intermediaries, such as federally certified community development financial institutions (CDFIs), which invest in housing and community projects in low- and moderate-income neighborhoods."[4]

ESG – The E of ESG stands for attention to the environment (that is, care in limiting resource use, pollution, carbon emissions, and so on). The S is for social (fair treatment for workers and related practices), and the G is for governance (this includes things like gender and racial diversity on company boards).[5]

Recoverable grants – "Recoverable grants provide risk tolerant grant capital to nonprofits looking to bring critical goods and services to people and communities in need."[6] For example, a foundation might provide a recoverable grant to a nonprofit that is responding to a natural disaster and needs immediate capital to mobilize on-the-ground support before the government steps in with funding and support. The nonprofit may then return those dollars to the funder when other forms of capital flow in. This type of catalytic grant capital gives the nonprofit the flexibility of grant capital that the funder can then recover if and when a program accomplishes its objectives. "This type of patient capital is critical to helping nonprofits scale their impact, allowing them to take risks to bring new solutions to entrenched problems."[7]

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1 Prasad, S., et al. "Beyond the Grant: Foundations as Impact Investors." The Bridgespan Group, 2020. https://www.bridgespan.org/getmedia/31ddd240-d7eb-48e7-ad6a-20e3f64a7d95/beyond-the-grant-foundations-as-impact-investors-sept-2020.pdf

2 Ibid

3 Buchanan, P., et al. "Investing and Social Impact: Practices of Private Foundations." Center for Effective Philanthropy, 2015. https://cep.org/wp-content/uploads/2015/05/Investing-and-Social-Impact-2015-1.pdf

4 Prasad, S., et al. "Beyond the Grant: Foundations as Impact Investors." The Bridgespan Group, 2020. https://www.bridgespan.org/getmedia/31ddd240-d7eb-48e7-ad6a-20e3f64a7d95/beyond-the-grant-foundations-as-impact-investors-sept-2020.pdf

5 Dubb, S. "What Would a Social Justice Investment Ecosystem Look Like?" Nonprofit Quarterly, 2023. https://nonprofitquarterly.org/what-would-a-social-justice-investment-ecosystem-look-like/

6 "Recoverable Grants: Frequently Asked Questions." CapShift, 2022. https://capshift.com/wp-content/uploads/2022/09/CapShift-RecoverableGrant-FAQ-Update.pdf

7 Ibid