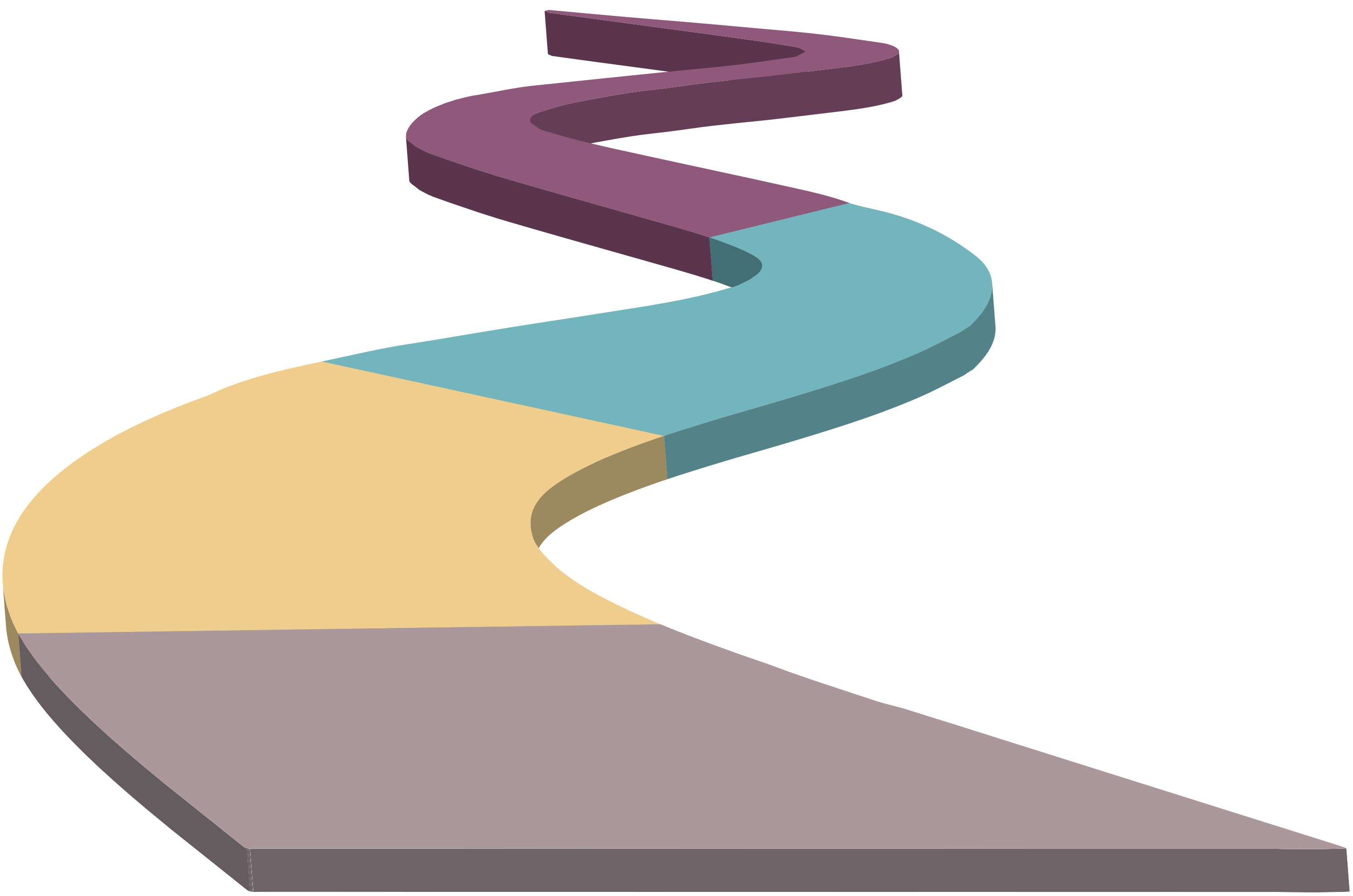
T100 Focus Report:

Foundations on the Road to 100%



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Cover art represents the total allocation of T100 Participant Foundations' assets toward each impact category: 39% in Thematic, 28% in Sustainable / ESG, 16% in Responsible/SRI, and 17% Non-Impact. For more explanation of these categories, please refer to the glossary on page 25.

letter from the CEO

We are releasing this report in the midst of the COVID-19 pandemic of 2020. Never has the need been clearer for the deployment of all available charitable resources to solve global problems. These resources include not only grants, but also the endowments of charitable foundations.

The 2018 Global Philanthropy Report of the Harvard Kennedy School's Hauser Institute for Civil Society estimates that foundation assets globally exceed $1.5 trillion. Because of outdated management practices and ideas, much of that capital is invested in ways that work against the mission of those foundations, with only a small percentage of that money spent on grants each year that are mission aligned. This is both a great tragedy and a great opportunity. According to the United Nations, $2.5 trillion per year needs to be mobilized if we hope to achieve the Sustainable Development Goals by 2030. Foundations, with their charitable missions, are well positioned to be the leaders of this movement and use all levers to do good with their capital. But, as we found, most aren't yet.

Charitable foundations committed to 100% activation of their endowment investments toward positive social and environmental impact (what we call "100%er foundations") are still the exception, not the rule. Most foundations today approach mission-aligned investing, if they do it at all, with extreme caution. They worry that such an approach is either foolhardy or just not viable. To put it plainly, this conception is out-of-date.

We at Toniic feel privileged to work with many of the pioneer 100%er foundations around the world, as they join our private 100% Network and participate in our public T100 study. T100 is a longitudinal study of the progress of 100%ers toward full deployment, and we have been at it for nearly four years.

In our prior reports, we have aggregated data collected from foundations with data from other private impact investors we serve (high-net-worth individuals and family offices), occasionally calling out ways that the investing practices of the different groups vary. In this report, we focus on the practices of *only the foundations* in the T100 study.

We know that foundations have different expectations and requirements than other types of investors. To write this report, we drilled into our T100 data to see how foundations manage their journey toward 100% mission alignment in light of those differences.

The foundations in the T100 cohort prove that worries about feasibility are unfounded and based on misconceptions. They are moving quickly toward their goal of 100% alignment with mission and overcoming constraints. The 18 foundation portfolios analyzed in this report represent $1.5 billion already deployed in mission-aligned ways. They prove that 100% mission alignment is possible.

This data provides insight into *what* foundations committed to 100% mission alignment are doing, but raises many questions about *why* they are making particular choices. Within this report, we include some perspectives on those questions from T100 participants as well as foundation practitioners and experts in our network. We hope to dig even further into the "why" as the T100 study progresses in the coming years.

In this time of global crisis, foundations that lead with all their capital (grants and endowment) are needed now more than ever.

I am pleased to introduce you to some of these bold leaders and share their experiences and lessons learned.

Respectfully,
Adam S. Bendell, CEO
Toniic

executive summary

The T100 Project is a longitudinal study of investment portfolios that target 100% values or mission alignment while seeking deeper positive net impact wherever possible. Over the past four years, the project has generated a data set of impact investments in portfolios of over 75 private wealth holders. 18 of the 76 portfolios in the latest study are foundations. Despite being only 23% of the total participants, foundations in this study represent in total $1.7 billion of committed capital, which represents 60% of the total committed capital of all 76 portfolios in the study.

We know that these T100 foundations are not the norm. Given that the Global Philanthropy Report found that less than 4% of the 2,833 foundations studied indicated that they employ social investment mechanisms, the data suggests a great pool of capital to address the world's most pressing problems is lying dormant, or even working against mission.

Within this report, we dive deeper into the data of the 18 T100 foundation portfolios and corresponding surveys to document how these foundations are deploying their capital toward deeper positive net impact across all asset classes.

Key findings

Although these T100 foundations are managing to go deeper with their impact while staying profitable, managing risk, and furthering their mission, they still face many challenges on their journey toward 100% mission alignment. The top-rated challenge by foundations in our study was "overcoming myths about impact investment financial performance." Within this report, we identify a number of misconceptions facing foundations pursuing mission-aligned investing and provide evidence and experiences from T100 foundations that dispute these misconceptions:

Misconception: Fiduciary duty *prevents* mission alignment of endowment investments.

T100 Reality: Fiduciary duty *compels* mission alignment of endowment investments. 38 percent of survey respondents reported that they believe that impact investments yield higher financial returns compared to traditional investments in the long term (greater than seven years). 62 percent believe they yield the same returns.

Misconception: Impact investments are too risky.

T100 Reality: The majority of T100 foundations find impact investments either equally as or less risky than traditional investments.

Misconception: Foundations need more liquidity than 100% impact investing can provide.

T100 Reality: T100 foundations have greater liquidity in their portfolios, across all impact categories, than other T100 participants: 67% of the foundations' investments could be liquidated in less than 90 days and only 19% were locked up for more than 5 years.

Misconception: Only private equity investments have impact.

T100 Reality: T100 foundations take a whole-portfolio approach and find impactful investments across all asset classes.

Misconception: Separation between grant-making (programmatic) and investment-making teams is necessary and helpful.

T100 Reality: Both sides of the foundation can work together to maximize impact.

Misconception: Small foundations don't have the resources for deep impact investing.

T100 Reality: Small T100 foundations are nimble and moving quickly to deeper impact investments, and T100 foundations of all sizes are finding success in pursuing deeper positive net impact.

Misconception: A foundation must have a lot of impact investing experience to get to 100% mission alignment.

T100 Reality: It's possible to learn as you go. Roughly half (54%) of T100 foundations work with an advisor. Some have chosen their advisor based on experience with impact investing, while others brought their existing advisor on the journey with them.

The T100 foundations we have studied number only 18 but represent US $1.7 billion in committed capital. They represent only a small fraction of the estimated $1.5 trillion in endowments worldwide, but they are true leaders in busting through the misconceptions that have kept others on the sidelines.

introduction

Foundations are best known for their philanthropic activities, and traditionally their grants and programs have been their only tool for positive impact. Indeed, grants and philanthropic programs have supported many good causes in communities around the globe. The Global Philanthropy Report[1] (published in 2018) identified 260,358 foundations in 38 countries and acknowledged that it is only a partial picture of the sector.

In the US alone, foundations granted over $60 billion in 2015[2], according to the Foundation Center. But that accounts for only 7% of all of the assets foundations control. The same Foundation Center study estimated that US foundations controlled over $850 billion, which prompts the question: what was the remaining 93% of foundations' money doing? How was it invested and what kind of impact (positive or negative) did it have on society and the environment? Were the assets aligned with those foundations' missions? Or could the assets have possibly been working against stated goals?

These questions are a concern for members of the Toniic 100% Network, a subset of Toniic members working toward 100% impact activation[3]. Most of the members of the 100% Network also contribute to the T100 Project (see details in box). They share their portfolio data and answer behavioral survey questions with the goal to create awareness that investing 100% of a portfolio for impact is possible. Of the data set of 76 portfolios in the latest study, 23% are foundations. Within this report, we dive deeper into the data of those 18 foundation portfolios and corresponding surveys to document how these foundations are deploying their capital toward deeper positive net impact across all asset classes.

Seventy-two percent of foundations in the T100 study are from the US or Canada, while 28% are based in Europe. One-quarter manage assets of over $100 million (which we designate as triple digit or AUM[4] $$$); one-third manage assets of less than $10 million (single digit or AUM $); and the remainder have a range of endowment size AUM of $10 million to under $100 million (double digit or AUM $$).

In total, foundations in this study represent $1.7 billion of committed capital, which represents 60% of the total committed capital of all 76 portfolios in the study, despite being only 23% of total participants.

About the T100 Project:

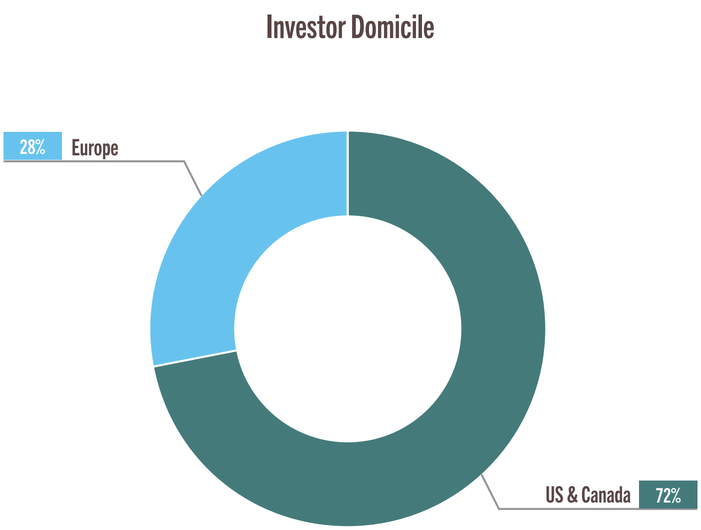
The T100 Project is a longitudinal study of investment portfolios that target 100% values or mission alignment while seeking deeper positive net impact wherever possible. The project's mission is to inspire and accelerate the progress of all investors and intermediaries toward that objective. Since 2016, the project has generated a unique data set from the portfolios of over 75 private wealth holders, representing $2.8 billion of committed capital. The study includes portfolio data, social impact performance, behavioral survey data, and interviews.

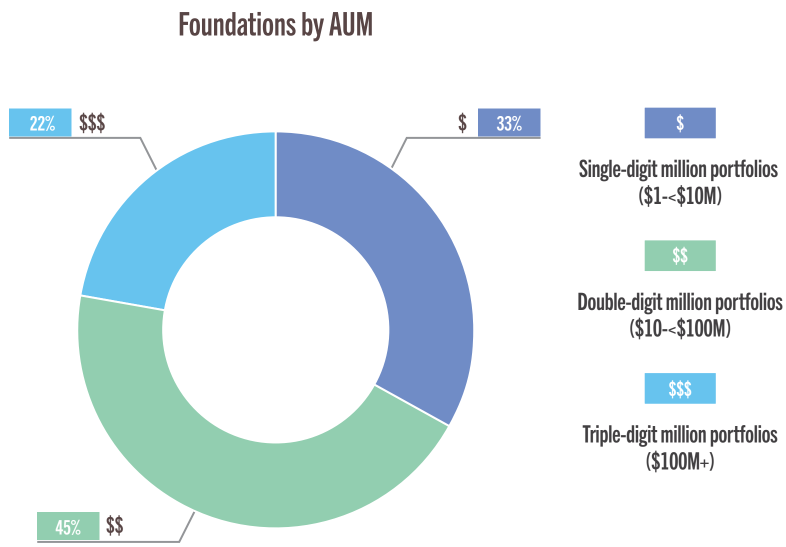
The project also supports a global consortium of esteemed academics in conducting research on impact investing.

Learn more at **toniic.com/T100**

1. https://cpl.hks.harvard.edu/files/cpl/files/global_philanthropy_report_final_april_2018.pdf
   All $ figures in this report refer to US dollars.
2. Data as of 2015: http://data.foundationcenter.org/
3. To learn more about the 100% Network at Toniic, visit toniic.com/100-percent-network
4. Assets Under Management (AUM)

We know that the foundations in this study are rare in their willingness to buck conventional wisdom, and therefore, are not representative of foundations more generally. Indeed, the Global Philanthropy Report found that less than 4% of the 2,833 foundations studied indicated that they employ social investment mechanisms, including “loans, equity investments, or impact investments in pursuit of philanthropic goals.” This information suggests a great pool of capital (estimated to be roughly $1.5 trillion) to address the world’s most pressing problems is being overlooked, even misaligned against foundations’ missions.





> **“In a time when the scale and urgency of societal challenges is growing, and philanthropic resources to address them are insufficient or shrinking, foundations are increasingly focused on driving the effectiveness of their programmatic work, but not thinking enough about catalyzing their endowment pools.”**
>
> — Dr. Julia Balandina Jaquier, Founder JBJ Consult

We share the data and stories from these real portfolios to show that it is possible for foundations to commit and deploy the entirety of their assets, not only their grants and programs, in alignment with their mission. These foundations are in the vanguard of those demonstrating that the fiduciary responsibility of a foundation includes alignment with mission in its use of all of its assets.

Of the $1.7 billion of capital committed by T100 foundations, $1.5 billion has already been mission aligned. Full mission-aligned deployment is not just an intention or a goal for these foundations; it is reality.

These innovative foundations are aligning all their capital with their mission while earning appropriate financial returns and managing risk. In doing so, they demonstrate two important points.

First, **mission-aligned investment can generate market returns while furthering mission**. Those board members, managers, financial advisors, consultants, and other stakeholders who say otherwise are simply stuck in the outdated paradigm that generating market returns and social impact at the same time is not possible and that incorporation of impact objectives will inevitably result in suboptimal financial performance. The data says otherwise.

Second, those who start down the mission-alignment path quickly see something hidden in plain sight: **if on average 7% is granted or used for programs each year and 93% invested, there is a lot more money invested than granted, and thus potentially a lot more impact in the investments**. When the T100 foundations examined their investments, they found many were actively working *against* the mission of the 7%. The classic example is a foundation whose mission is to combat climate change but is invested in fossil fuels.

T100 foundations demonstrate that the investment portfolios do not need to sacrifice financial return or mission alignment. Where there are tradeoffs, they can be made thoughtfully and efficiently.

Still, such foundations face many challenges on their journey toward 100% mission alignment. The top-rated challenge by foundations in our study was "overcoming myths about impact investment financial performance." Within this report, it is our goal to dispel lingering myths and misconceptions with the evidence and experience of our T100 foundations so that other foundations can learn from and be inspired by their journeys.

A note about terminology

Inconsistently used terminology is a huge challenge for the impact investing industry. The term "mission investing" or "mission-aligned investing" is most commonly used for foundations, whereas "impact investing" is more common among high-net-worth individuals (HNWIs) and family offices. We use both of these terms but not quite interchangeably.

At Toniic we distinguish between *values alignment* and *investor impact contribution*. A full explanation of this difference is beyond the scope of this report. To learn more, visit Impact Investing - the Toniic Approach. Briefly, by values (or mission) alignment, we mean holding only investments that align with the values of the asset holder (the mission, in the foundation context). By investor impact contribution, we refer more narrowly to investments in which the investor can identify a mechanism of contribution or additionality—i.e.,that something happens in the world that would not have happened absent the investment. Examples of these mechanisms are engaging with management to make a company better, growing undersupplied capital markets, or providing capital on terms that are more flexible than those of traditional capital providers. In this distinction, we follow the work of the Impact Management Project's *Impact Class Matrix*, in which both the contribution of the funded enterprise and the contribution of the investor are separately tracked.

Investments with deep investor impact contribution may involve some financial tradeoffs (though do not always require them). Values aligned investments do not.

A separate set of terms comes from the United States Internal Revenue Code. "Mission-related investments, or MRIs, and program-related investments, or PRIs: These terms, whose strict definitions come from US tax law, have been adopted by foundations outside the US as well. The simplest way to understand the distinction is that PRIs are invested from the "program side of the house" (what would otherwise be granted), and, under the US Internal Revenue Code, can count toward the mandated 5% annual expenditure requirements. Mission-related investments are made from the endowment corpus, and are expected to make a market rate of return alongside their mission-aligned impact.

T100 foundations have committed to 100% mission alignment of the endowment (including but not limited to MRIs).

5. https://toniic.com/impact-investing

misconceptions vs (T100) realities

Misconception: Fiduciary duty *prevents* mission alignment of endowment investments.

T100 Reality: Fiduciary duty *compels* mission alignment of endowment investments.

Foundations differ from other types of investors in the T100 study in that they must answer to charitable foundation trustees. While individual investors can be agile with their strategy, foundations must balance a variety of perspectives and expectations. The battle between conservative and progressive stakeholders is particularly intense for foundations when it comes to the varying interpretations of fiduciary duty. “Fiduciaries are less risk taking than individuals,” explains **Stephanie Cohn Rupp** of Veris Wealth Partners. “Fiduciaries feel that it is not ‘theirs to lose,’ whereas individuals are OK with that, as there is no agency problem.” Therefore any investment criteria that is arguably unrelated to financial return is suspect in the fiduciary mind.

Fiduciary duty is commonly understood as the obligation for a foundation to earn a return on the principle of at least 7%, allowing for 5% to be granted for charitable purposes and accommodating for inflation, so that the endowment can exist in perpetuity. As explained by Panahpur Foundation’s CEO **James Perry**: “Given that the prevailing understanding remains that the fiduciary duty of trustees is to maximize the financial interests on behalf of their beneficiaries, there is more reputational risk for these trustees in seeking out impact investments. This makes them more cautious.”

In the view of the T100 foundations, the constraints of fiduciary duty are widely misunderstood. There are various levels of mission alignment, the lightest of which is to simply take into account environmental, social, and governance (ESG) risks that may have a material effect on the financial performance of the invested entity in the medium term. Despite their stated charitable missions, many foundations do not perform even this light level of ESG integration, sometimes based on the argument that fiduciary duty prevents such considerations.

> **Failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty.**
>
> **– Fiduciary Duty in the 21st Century by the PRI, UNEP FI, UNEP Inquiry and UN Global Compact. Sep 2015[6]**

Such an understanding is not merely wrong, it is the opposite of the truth:

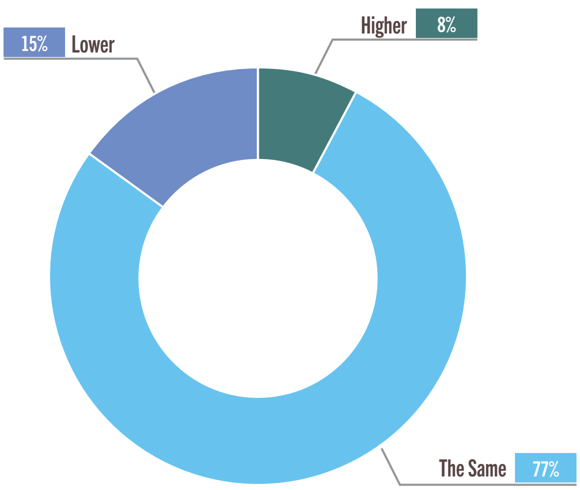
That conclusion applies to financial fiduciaries in every context. A charitable foundation must consider the **duty to further its mission as an additional layer of fiduciary responsibility**. Foundations are granted favored tax status (with benefits such as the deductibility of donations received) only because of their charitable missions, and that status is threatened if they deviate from their mission. How could the fiduciary duties of a charitable foundation exclude consideration of the charitable mission? Those who say “maximize risk-adjusted financial return at all costs” are doing exactly that.

6. https://www.unepfi.org/publications/investment-publications/fiduciary-duty-in-the-21st-century/

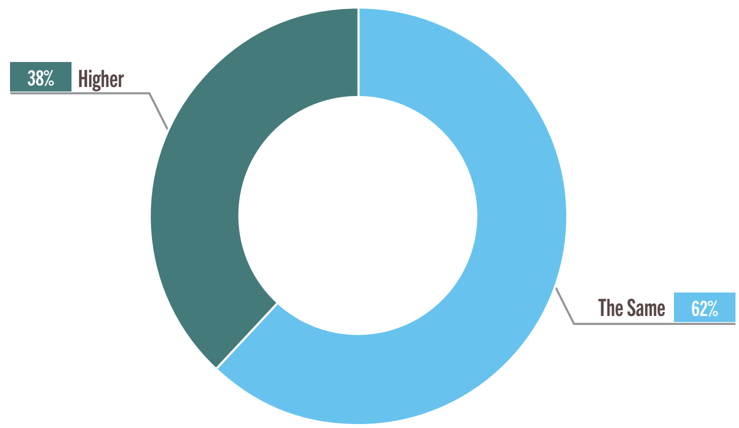
Second, mission alignment does not require financial tradeoffs in the long term, as T100 data demonstrates: 38% of survey respondents reported that they believe that impact investments yield higher financial returns compared to traditional investments in the long term (greater than seven years); 85% believe that in the short term, impact investments would yield either the same or better financial returns.

Do you believe that impact investments yield lower or higher financial returns compared to traditional investments...

...in the short-term (1-3 years)?



...in the long term (>7 years)?



How could it be that impact investments have higher financial returns in the long term? According to **Dr. Julia Balandina Jaquier**, author of *Catalyzing Wealth for Change: Guide to Impact Investing*, "Impact investors view the ability of impact-driven companies to effectively address major societal challenges to be a significant demand driver for their products and services, making them more attractive than traditional companies. More broadly, sustainable companies are considered to be less risky and more competitive in the long run than those that do not properly manage ESG risks." Both of these reasons are possible explanations for the superior financial performance of at least some impact investments in the long run.

Other studies have similar findings: the research by Cambridge Associates and the Global Impact Investing Network (GIIN)[7], whose study into private real assets impact investing funds found that risk-adjusted market rates of return were possible alongside rigorous pursuit of a range of impact objectives.

7. https://www.cambridgeassociates.com/wp-content/uploads/2018/04/The-Financial-Performance-of-Real-Assets-Impact-Investments.pdf

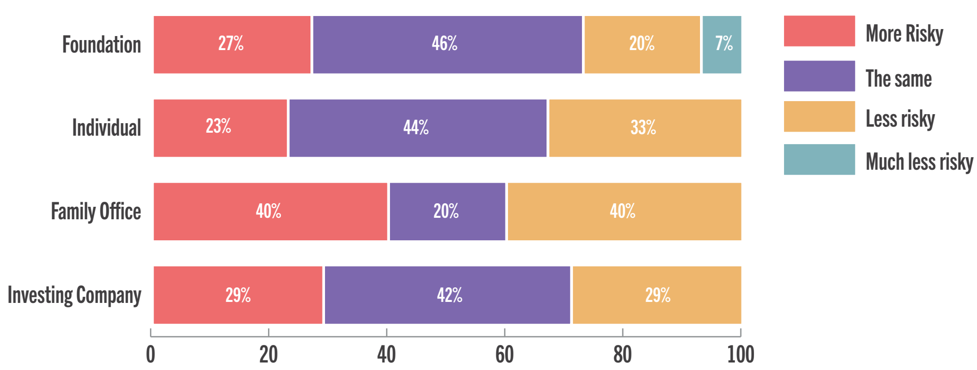
Misconception: Impact investments are too risky.

T100 Reality: The majority of T100 foundations find impact investments either equally or less risky than traditional investments.

Another argument of traditional foundation trustees against impact investments is that they are too risky. This could be due to a misconception that all impact investments are private direct investments into social enterprise startups, or it could be that investment teams are hesitant because the territory is unfamiliar. Whatever the reason, perceived risk is holding many foundations back from deploying more assets into impact investments.

Worries about risk are not holding T100 foundations back. In fact, **only about a quarter of respondents to the survey considered impact investments to be more financially risky than traditional investments, while another quarter considered them to be either less or much less risky**, likely due to the care such investors take to understand potential financially material ESG risks.

Do you think impact investments are more financially risky than traditional investments?



Jim Sorenson from the Sorenson Impact Foundation explains that:

> "Even though we manage our program-related investments like any other investor, had the program-related investments not been spent as investments, they would have been allocated as grant dollars. So, the primary risk we were taking was that we would not succeed in promoting impact investing as a viable asset class. The real risk to our portfolio was, in fact, de minimis.
>
> The balance sheet of a foundation is its survival mechanism, and historically, financial advisors and trustees have guarded it closely. However, as the impact investing space has continued to gain momentum, we recognize we are at a time when we have enough options to truly invest our portfolio for impact and financial growth simultaneously, without concession or undue incremental risk. "

Toniic 100% Network member **Annie Chen** sees the alternative to an impact lens as even riskier: "RS Group became increasingly aware of the connection between investments and climate change, and in 2014, funded the Carbon Tracker Initiative to conduct research on the financial risks of the 'carbon bubble' and 'unburnable carbon' within coal companies listed on the Hong Kong, Shanghai and Shenzhen stock exchanges." Says **Katy Yung**, RS Group's Director of Investment, "The outcomes of this research further convinced us of the long-term financial risks of investing in fossil fuels. The case for stranded assets was too strong for us to ignore."

> **It is not all or nothing. Building a diversified, mission-aligned portfolio inherently means that the depth of the impact will vary across investments. It is possible to build a portfolio without meaningfully altering the risk-and-return profile, strategic asset allocation, or liquidity needs using a mix of ESG investments and thematic investments.**
>
> — The Sorenson Impact Foundation's Path to Mission Alignment

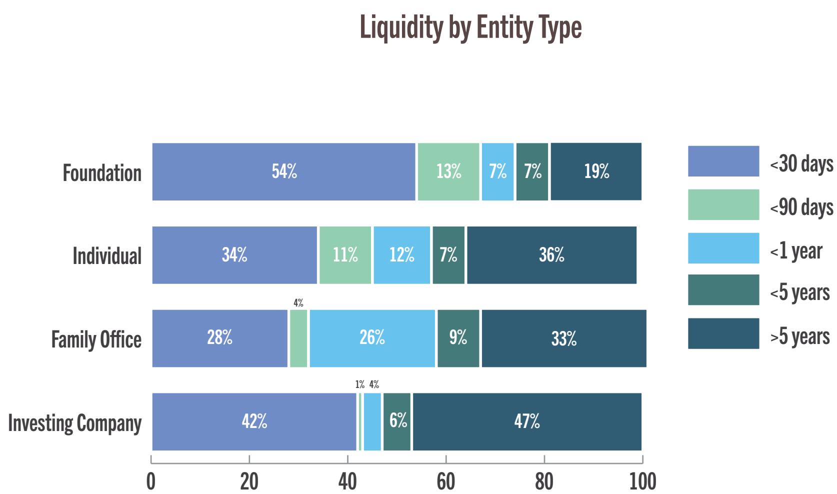
Thinking about risk more broadly and longer term, impact investing is less risky than unmitigated climate change, ignored demographic shifts, political instability, and resource scarcity.

Misconception: Foundations need more liquidity than 100%-mission-aligned portfolios can provide.

T100 Reality: T100 foundations have sufficient liquidity in all impact classes.

In addition to fiduciary duty and lowering risk, foundations are also concerned about liquidity. Grant-making and program activities and overheads require foundations to have a certain amount of cash each year. Misconceptions lead foundation decision makers to believe that they cannot invest more of their assets toward mission alignment.

Our research does confirm that foundations pursue more liquid portfolios overall than other types of investors in the study. T100 foundations have greater liquidity in their portfolios, across all impact categories, than all other types of T100 participants, with 67% of the foundations' investments having less than 90 days liquidity and only 19% greater than 5 years.

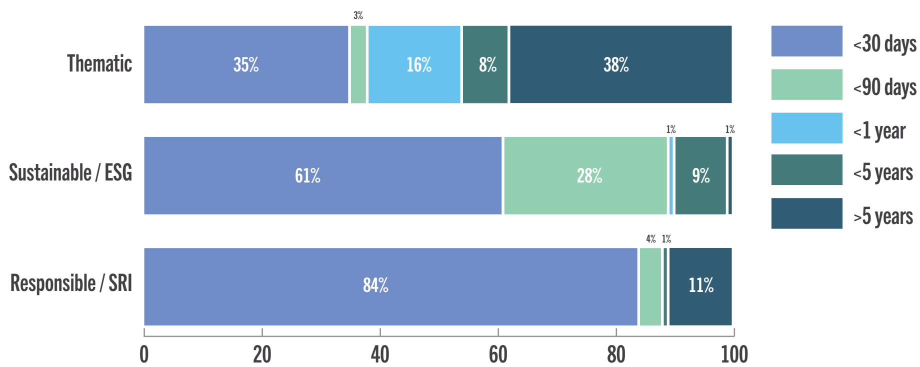


The high liquidity of T100 foundation portfolios could also be explained by the fact that many 100% Network members are in the process of converting their portfolios to deeper impact investments. **James Perry**, Executive Director of Panahpur describes the process at his foundation: "Certainly when Panahpur made the decision to move to 100% impact, we were keen to insure that the endowment was fully liquid to enable us to sell it down and transfer into impact investments when we had agreed where we wanted to put the money to work. We did this with 100% of our assets in 2017."

As the industry has matured, the availability of liquid financial products for impact investors has increased. The **Toniic Diirectory**[8], a public resource of anonymized investments from the T100 data set, includes over 500 investments with a reported liquidity profile of 90 days or less. These investments range from cash deposits at banks like the **Native American Bank** or **Triodos** to thematic index funds like the **SPDR SSGA Gender Diversity Index ETF**[9]. Discover more at toniic.com/toniicd.

8. https://toniic.com/toniicd/
9. https://www.ssga.com/us/en/intermediary/etfs/funds/spdr-ssga-gender-diversity-index-etf-she

Liquidity by Impact Type



As documented in the chart above, T100 foundations are able to find necessary liquidity across all impact classes, yet more liquid investments tend toward the category of "Responsible/SRI,"[10] which is the lightest type of impact in the classification scheme we used when this data was collected.

In our next rounds of data collection, we will be using the impact classification matrix of the Impact Management Project. That framework positions the social or environmental impact of the underlying enterprise on one axis of consideration, and the investor's impact contribution on the other. This much more nuanced framework helps untangle many confusing terminology issues in the space. To learn more about the framework, visit the **IMP website**[11].

In reality, T100 participants take a nuanced approach to portfolio development, often considering the *Continuum of Capital*, when it comes to returns and liquidity.

The Continuum of Capital is a framework developed by the Omidyar Network to illuminate the wide spectrum that lies between market rate investments and philanthropic grants.

Download the report, **Across the Returns Continuum**[12], and learn more from the **Catalytic Capital Consortium**[13], an initiative of the MacArthur Foundation, Omidyar Network, and Rockefeller Foundation.

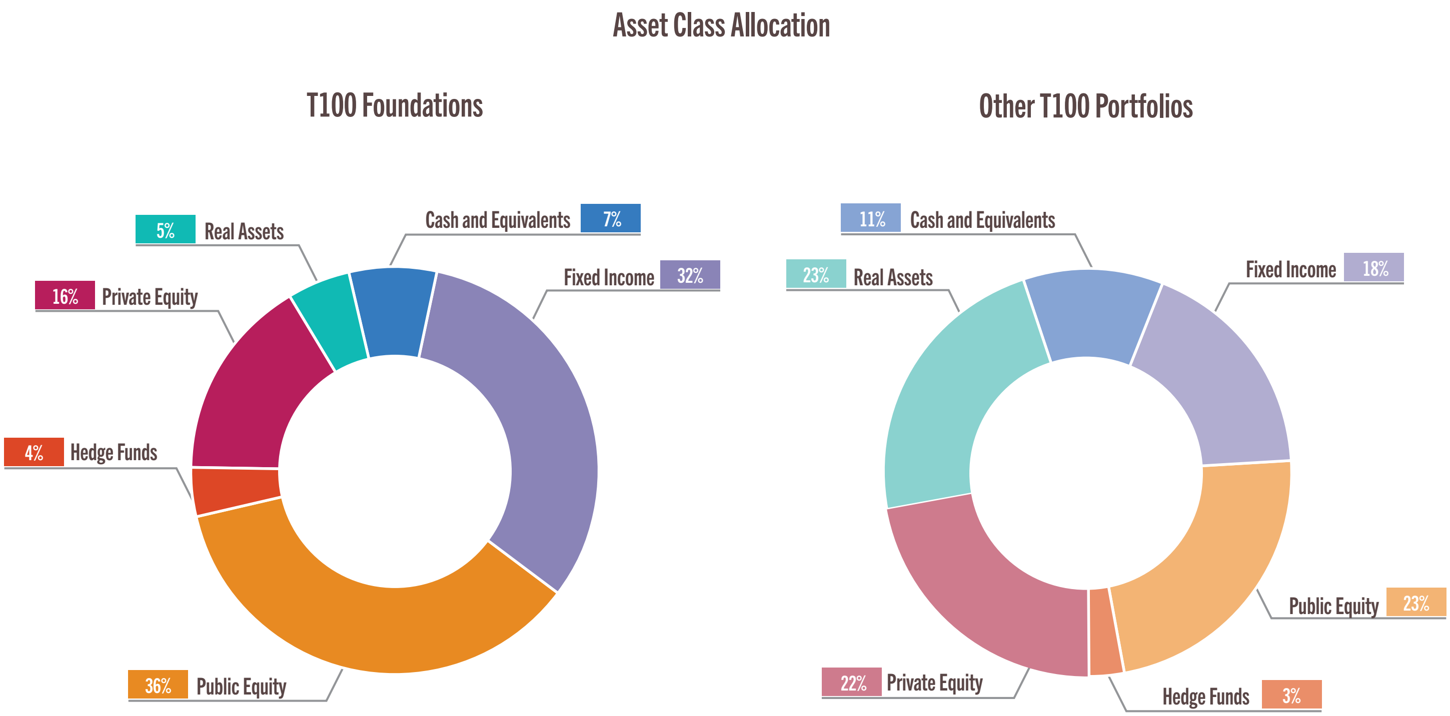
10. To read about how we define Responsible/SRI, please refer to the Glossary of Terms on page ##.
11. www.impactmanagementproject.com
12. https://www.omidyar.com/sites/default/files/file_archive/Across%20the%20Returns%20Continuum.pdf
13. https://www.macfound.org/programs/catalytic-capital-consortium/

Misconception: Only private equity investments have impact.

T100 Reality: T100 foundations take a whole-portfolio approach.

When the term “impact investing” was coined a decade ago, it primarily meant early-stage private equity investments in social enterprises. Since then, the practice and our vocabulary to describe it has evolved. (To read more about how we at Toniic distinguish the many terms to describe impact investing, see page ## or visit www.toniic.com/impact-investing.)

Pushing past this outdated misconception, **T100 foundations are approaching impact investing with a total-portfolio approach**. They have impact investments across all asset classes:



Public equity and fixed income are the largest asset classes in T100 foundations’ portfolios (36% and 32% respectively); public equity is 13 percentage points and fixed income is 14 percentage points more than the average of other T100 portfolios. The drastic difference between the two groups could be due to the hyper-conservative nature of foundations’ advisors. **Lisa Kleissner**, co-founder of the KL Felicitas Foundation, explains how the industry has developed with respect to the fixed income asset class: “There are many more fixed income impact deals in the market today than there were 5 to 10 years ago. There was a time when folks complained about the lack of impact fixed income products. This could be due to the bias of their impact advisor. Fixed income behaved well in the last downturn, so while the returns are not sexy, they are solid.”

Public equity may be an easier sell to hesitant investment advisors or staff. "[There is] more financial performance data related to public markets than private markets," explains **Christine Looney** of the Ford Foundation, "giving potentially more comfort in entering that strategy first."

After a few years of angel investing with Panahpur Foundation, **James Perry** explains that they came to two conclusions about their portfolio approach:

> **Instead of being a venture investor, we wanted to be a portfolio investor, holding assets in various asset classes, which would make the endeavor much more replicable, and we also realized that impact investment was much broader than just investing in charities and a few social enterprises.**
>
> – James Perry, Panahpur Foundation

The foundation adopted the **Principles for Responsible Investment**[14] first and then moved into portfolio impact investing. "When you embrace a portfolio approach, then the work becomes relevant to all capital in the world," Perry marvels.

Panahpur found great inspiration in Lisa and Charly Kleissner's **KL Felicitas Foundation**[15], which pioneered multiasset class portfolio theory for impact. Panahpur's portfolio held cash, private and public debt and equity, as well as real estate. Cash was moved from HSBC to a range of sustainable banks. The rest, apart from public equity, followed the same impact investing path. Although they found public equity impact investments to be complex, Perry reports that they have invested in a couple of public equity funds (WHEB Sustainability Fund and Wellington Global Impact Fund), which they think are authentic impact investments.

14. https://www.unpri.org/
15. https://klfelicitasfoundation.org/impact-investing-overview/strategy-overview/

Misconception: Separation between grant-making and investment-making teams is necessary and helpful.

T100 Reality: Both sides of the foundation can work together to maximize impact.

Large foundations historically silo their grant-making staff from their investment staff. The traditional explanation is that the skills are entirely different: the investment team focuses on financial return and financial risk management of the endowment, with no concern for foundation mission. Each year a portion of the accumulated asset returns is used to fund overhead and transferred to the program team to distribute in the form of grants. With each acting as two autonomous limbs, however, there is a likelihood of the investment side undermining the mission. Hypothetically, for a foundation dedicated to curing cancer, the grants team could be supporting lung cancer research with its 5%, while the investment team is invested in tobacco companies with the majority of the 95%. Although this is a dramatic example, it illustrates how foundations may be internally conflicted if they don't do screening on the investment side.

And even those that do some screening often leave it a superficial level. "I think foundations have clear mission statements, but do not [have] clear MRI mission statements," says **Stephanie Cohn Rupp**, COO at Veris Wealth Advisors. "Oftentimes, the investment approach is 'do no harm,' while the grant making is targeted. I think it has to do with the level of sophistication of foundation staff and trustees in creating an Impact Policy Statement, which might be different than a charitable mission."

The separation between programs and investments need not be so strong. **T100 foundations are breaking down the walls, integrating programmatic and investment activities in order to maximize impact of their assets** (see Heron example in the box below).

Heron Foundation, a T100 participant, has embraced an integrated approach, as described in Dr. Julia Balandina Jaquier's* book, *Catalyzing Wealth for Change: Guide to Impact Investing*: "In 2011, analyzing progress against its mission, Heron concluded that, 'The growth of poverty in the US, the decline in reliable employment, and the size and urgency of broader and more systemic problems required a new approach.' Heron altered its strategy to focus primarily on investing in enterprises that create reliable income streams for people striving to get out of poverty. They also decided to push forward from the previously established ceiling of 40% of endowment assets invested for mission to the aspiration of reaching 100%. The approach was 'to maximize the impact of each Heron dollar,' while maintaining a portfolio that met Heron's financial return requirements. That was achieved by marrying the impact strategy with the fundamental rules of successful investment management, including developing clear positions on risk appetite, performance objectives, time horizons, metrics, benchmarks, and similar considerations. The new strategy required a different organizational structure—Heron has removed the division between the endowment and grant side of the organization, traditional to endowed foundations. Every member of Heron's unified capital-deployment team works together to source, vet, perform due diligence on, and manage a broad spectrum of opportunities. The team's 'mission toolkit' now includes the full spectrum of financial vehicles, from grants and loans to private equity investment, public company shares, and more."

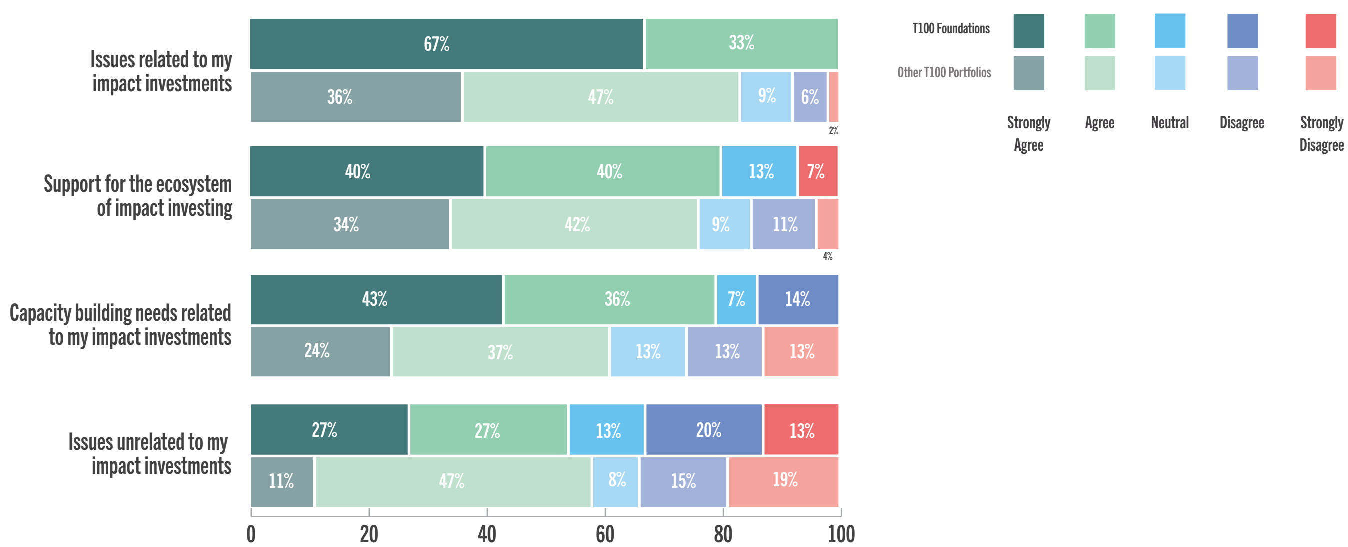
* Dr. Balandina Jaquier is a member of the T100 Academic Research Consortium Advisory Board.

Kristin Hull of Nia Community Foundation describes their approach: “My core thesis is to invest at the intersection of social change and environmental sustainability. To the extent I can find investments that touch both, I am happy. Some solutions will not be reached via investment and actually require capital infusion, rather than expecting any type of financial return or financial extraction from a community, and that is where I place philanthropic dollars. I also use philanthropy to catalyze the impact investment space, to grow something new.”

T100 foundations in the study overwhelmingly agree: **100% reported that they use philanthropy to address issues related to their impact investments.**

In addition to thematic issues, T100 foundations are using grants and philanthropy to pave the way for their impact investments: **84% used philanthropy to support the ecosystem of impact investing** (compared with 74% of other T100 respondents).

Survey: How much do you agree with the following statements?
Last year I used philanthropy to address:



The Tara Health Foundation’s integrated team made an interesting discovery as they worked together to examine the process their team used to decide which organizations to provide grant or investment capital. Their investment officer and grant officer were working in parallel to come up with screening criteria for these organizations. They realized that the criteria, while similar, were not exactly the same. They asked themselves, “Why are we more willing to give away a million dollars as a grant to an enterprise and not look closely at how they are running their company? Conversely, why were we agonizing over a $100k equity investment, and subjecting the investment to three months of due diligence?”

The result was the consensus that they needed to use the same criteria for both grants and investments—to apply more focus on mission and speed up how they evaluated every deal. The new approach has scared some of their potential grantees and highlighted the need for targeted capacity building. The team is excited about figuring out this new challenge.

Misconception: Small foundations don't have the resources for deep impact investing

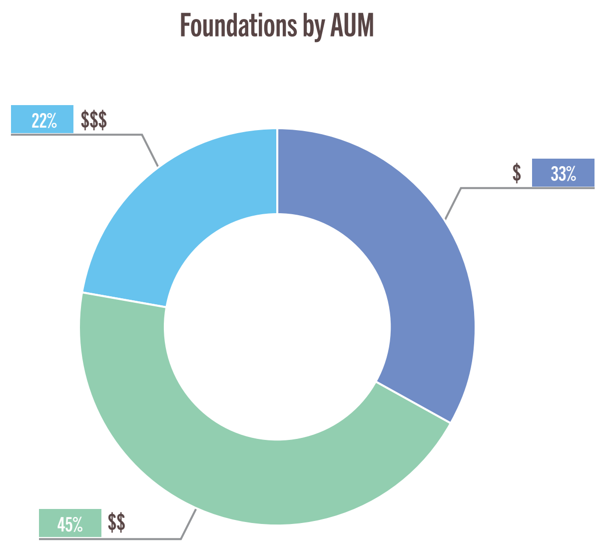
T100 Reality: Small T100 foundations are nimble and moving quickly to deeper impact investments.

Another misconception about impact investing by foundations is that it's an exercise available only to larger foundations with more resources. To do it properly, some think they need entirely new and dedicated specialized advisors, staff for due diligence, and resources for impact management on the investment side that they lack on the program side. The process can seem daunting.

However, T100 foundations of all sizes are finding success in pursuing deeper positive net impact. In the T100 study, we divide portfolio assets under management (AUM) into three categories:

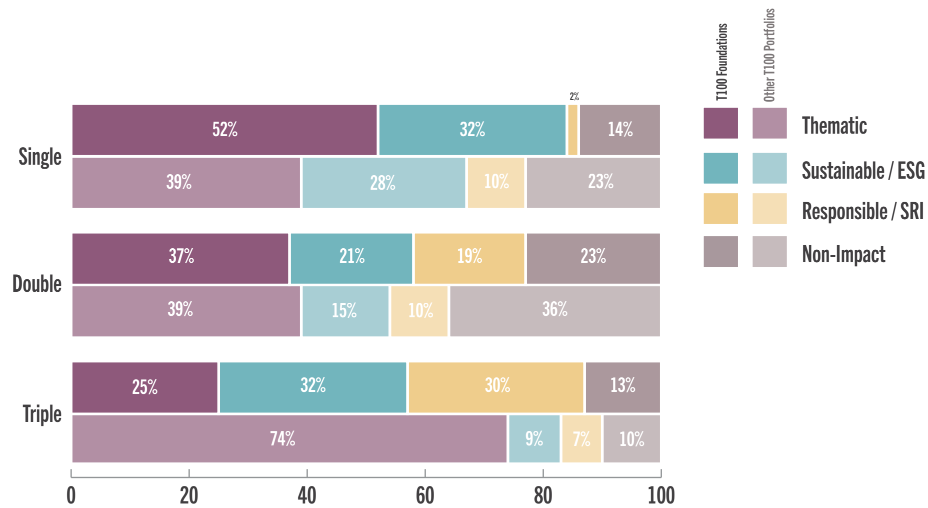
- Single digit (AUM $) = $1–9 million
- Double digit (AUM $$) = $10–99 million
- Triple digit (AUM $$$) = $100 million

Thirty three percent of the T100 foundations in the study are AUM $, 45% are AUM $$, and 22% are AUM $$$. So the "100% for mission" approach is accessible at each of these asset size levels.



Eric Jacobsen's family foundation is an example of a single-digit foundation that has been able to shift into impact investments in a nimble way: "Once I got my personal liquid side taken care of, then we started working on my foundation, as I wanted to leverage my foundation much more. I had to re-craft my foundation's mission and its purpose in order to be able to do mission-related investments and to be able to do program-related investments. We went through all the necessary legal work, and now I do the majority of my private-directed investments through the foundation, because these investments are generally mission-oriented."

Impact Categories According to AUM



The agility of small foundations is evident in the data as well. Single-digit foundations are more invested in impact in general and deeper ("thematic") impact specifically than their impact peers (52% vs. 39%). **Charly Kleissner**, co-founder of the KL Felicitas Foundation, says "**the data confirms the fact that smaller, entrepreneurial foundations are able to move quicker into deep impact**, because they are not led by administrators, but by entrepreneurial founders."

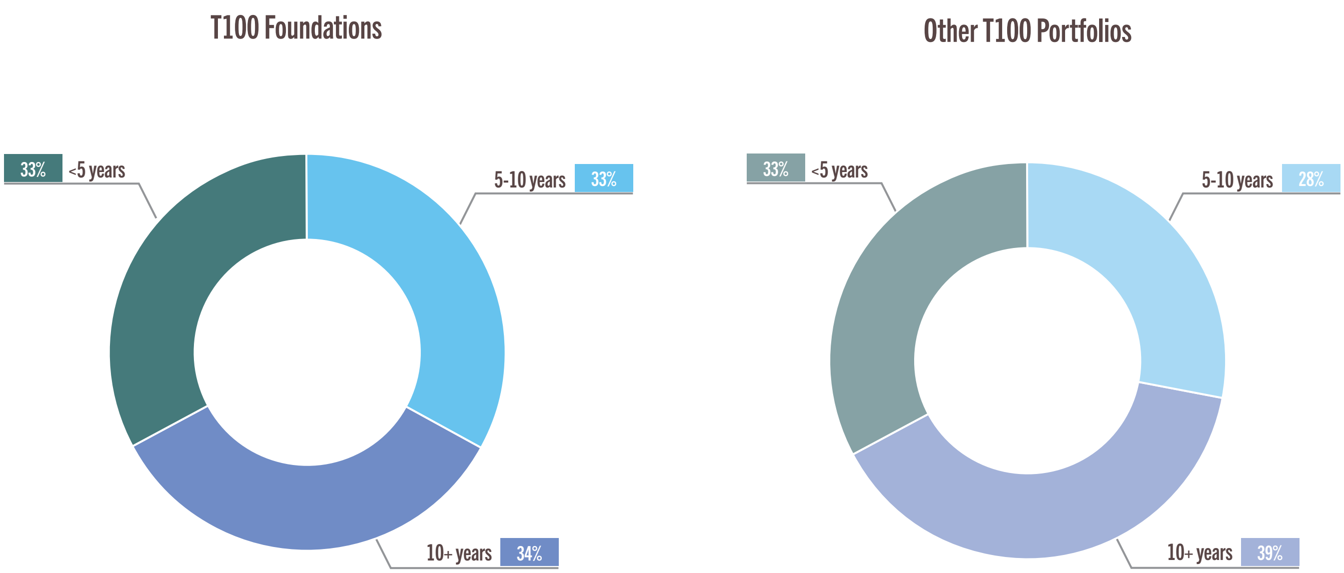
Larger foundations have some additional challenges in mission investing. The most obvious is that they need to operate on a larger scale. **Christine Looney** of the Ford Foundation explains: "It's possible that [smaller foundations] are investing in smaller deals—it might be difficult for larger endowments to invest in really small opportunities at any scale."

Misconception: The foundation must have a lot of impact investing experience to get a foundation to 100% mission alignment.

T100 Reality: It's possible to learn as you go.

One third of the foundations in the study have been impact investing for less than 5 years, one third between 5 and 10 years and one third for more than 10 years. In comparison, almost 40% of the other T100 investors have been impact investing for more than 10 years. This shows that as an impact investor and as a foundation you don't need to have a lot of experience to move to 100% mission alignment. Also, each type of portfolio in the T100 study has a team of people working to make it successful. Foundations are distinct from their impact peers because they often have investment professionals and/or CFOs hired specifically to manage the assets, whereas HNWI portfolios typically have fewer people dedicated to guiding the investments. Advisors and investment staff are traditionally trained and are therefore more comfortable with SRI or ESG[16] investing than with Thematic investments.

Experience in Impact Investing



Roughly half (54%) of T100 foundations work with at least one advisor. Some have chosen their advisor based on experience with impact investing, while others brought their existing advisor on the journey with them.

16. Definitions of SRI and ESG can be found in the glossary at the end of the report.

The latter was the experience of Tara Health Foundation and its founder, **Dr. Ruth Shaber**. Her investment advisors built an impact portfolio across asset classes that focuses on the health and well-being of women and girls. Dr. Shaber initially considered moving to an established impact advisory, but her determination to continue to work with her existing advisors resulted in several unexpected outcomes. First, her advisors were able to leverage their work with Tara with other clients of the firm. Then, the Tara Health Foundation's investment in US Trust's Women and Girls Equity Strategy led Bank of America to feature the foundation portfolio in its 2017 annual report. This validated the work of Dr. Shaber and her team and was an important signal to the financial industry that portfolio-level impact in deep social issues is achievable. Dr. Shaber shares the added value of learning alongside her advisors: "I've learned so much in a sector that I knew nothing about as recently as five years ago. I've gained confidence to be able to talk about money in a way that fits me and the way I solve problems, the way I think about philanthropy, and the way I think about really making change in the areas that need it."

Kim Jordan and the New Belgium Family Foundation took a different approach:

> "Our first executive director was my daughter Lucy, and I did that intentionally. She's bright, but had no experience with finance, foundations—any of those things. But that was exactly what I wanted, because I wanted someone who didn't say: 'Well, in a foundation, you always do this, and you have to protect the corpus.' So we sort of approached this as entrepreneurs who are trying to understand what we thought was possible. If you don't know what's possible, you choose a lot of crazy things. We have done a lot of crazy stuff at New Belgium over the years because we had no idea that we couldn't do that."

final thoughts

Foundations' programs and grants contribute to solutions to the world's challenges, yet we know philanthropy alone will not suffice. The United Nations estimates a $2.5 trillion funding gap each year in order to achieve the Sustainable Development Goals by 2030[17]. One way foundations can begin closing this funding gap is to ensure that all foundation resources are fully aligned with the mission; this includes investments along with programs, grants, and philanthropy.

The T100 foundations we have studied number only 18 but represent $1.7 billion in committed capital. They represent only a small fraction of the estimated $1.5 trillion in endowments worldwide, but they are true leaders in busting through the misconceptions that have kept others on the sidelines. Contrary to entrenched beliefs in the industry, T100 foundations are finding that they can build portfolios that are fully aligned with their purpose. They are bringing leadership, advisors, investment teams, and programmatic teams together to ensure that all assets and activities contribute to (and don't undermine) their mission.

These foundations vary in focus, endowment size, country, type of leadership, and a myriad of other factors, but are united in their commitment to deeper positive net impact. They prove that a total-portfolio approach to impact investing is achievable, regardless of constraints.

We invite you to join them and others in Toniic's global community of asset owners seeking deeper positive net impact across the spectrum of capital. Wherever you are in your impact journey, we can help you go further.

> **When you embrace a portfolio approach, then the work becomes relevant to all capital in the world.**
>
> — James Perry, Panahpur Foundation

17. https://www.undp.org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-/

additional resources

Toniic's Resource Center, featuring videos and stories from T100 investors, as well as other reports and publications from Toniic

- toniic.com/resource-center/

Toniic Diirectory: A publicly accessible online searchable catalog of more than 1,500 impactful investments across all asset classes, sourced from the portfolios of T100 participants and partners:

- toniic.com/toniicd

In Pursuit of Deep Impact and Market-Rate Returns: KL Felicitas Foundation's Journey: A deep-dive analysis of the KLF impact investment portfolio, which provides a model strategy for achieving targeted social and environmental as well as financial returns. 2018.

- https://klfelicitasfoundation.org/

The Sorenson Impact Foundation's Path to Mission Alignment: A case study of a 100% Network member on the path toward 100%. 2019.

- https://sorensonimpactfoundation.org/journey-to-mission-alignment/

Impact Investing Guidebook for Foundations, published by Purpose Capital. 2017.

- http://foundations.impactinvesting.ca/wp-content/uploads/2017/10/Impact-Investing-Guidebook-Foundations-v16-Linked.pdf

Global Philanthropy Report 2018

- https://cpl.hks.harvard.edu/global-philanthropy-report-perspectives-global-financial-sector

glossary

Impact Categories. In our prior surveys, which were completed in 2018 and before, we defined impact categories consistent with the Group of 8 (G8), World Economic Forum (WEF), and Global Impact Investing Network (GIIN) definitions. We will be moving from this definition set to one based on the **Impact Classes**[18] of the Impact Management Project in our future T100 work. The data to this point has been collected against the following definitions:

- **Non-Impact:** These investments follow the traditional investment approach with an emphasis on profit maximization without any explicit or intentional regard for social and/or sustainable factors or externalities.

- **Responsible/SRI:** Socially Responsible Investments involve the negative screening of investments due to conflicts or inconsistencies with personal or organizational values, nonconformity to global environmental standards, adherence to certain codes of practice, or other such impact performance criteria. The term "responsible" is further used to capture investment activity that may proactively contain a social or environmental component in its strategy.

- **Sustainable/ESG:** Environmental, Sustainable, and Governance (ESG)—or sustainable—investments move beyond a defensive screening posture and are actively positioned to benefit from market conditions by integrating environmental, social, and governance factors into core investment decision-making processes. This category can include corporate engagement, innovations and new markets that are recognized as a path to growth, with positive social and environmental benefits.

- **Thematic:** Thematic investments have a focus on one or more impact themes, such as clean energy or access to clean water. These are highly targeted investment opportunities in which the social and/or environmental benefits are fully blended into the value proposition of a commercially positioned investment.

Impact investing. We follow the GIIN (Global Impact Investing Network) definition of impact investing: investments made with the intention to generate positive, measurable, social, and environmental impact alongside a financial return. This includes investments across asset classes, program-related investments (PRI) and mission-related investments (MRI) investments, and those that are aligned with the values/mission of a foundation.

Impact Management Project (IMP). The IMP is a forum for building global consensus on how to measure, manage and report impact. Learn more **on the IMP website**[19].

Mission Related Investments (MRIs) are, strictly, investments within the corpus, or endowment, of US-based foundations. They cannot jeopardize the financial health of the foundation. However, non-financial factors (such as mission alignment) can be considered[20].

Program Related Investments (PRIs) are, strictly, investments from the charitable, or program, side of the foundation. PRIs allow foundations to make profitable investments, as long as they meet the charitable purpose of the foundation.

United Nations (UN) Sustainable Development Goals (SDGs). On September 25, 2015, the UN adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each of the 17 goals has specific targets to be achieved over the next 15 years. Learn more **on the UN site**[21].

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18. https://impactmanagementproject.com/investor-impact-matrix/
19. https://impactmanagementproject.com/
20. https://www.natlawreview.com/article/womble-whiteboard-two-slide-explanation-pri-mri
21. https://www.un.org/sustainabledevelopment/sustainable-development-goals/

acknowledgments

Research, Writing, and Design Team

We thank our dedicated team for making this report a reality. We would like to acknowledge:

Melody Jensen, T100 Project Manager
Kristin Siegel, T100 Project and 100% Network Director
Dario Parziale, Director of Investment Research & Analysis
Adam Bendell, Toniic CEO
Kali Malinka and Jen Yamasaki, Sakicreative.com, Data Visualization and Graphic Design

Contributors and Reviewers

Thank you to the following reviewers whose collective wisdom added great value:

Christine Looney, Ford Foundation
Lisa and Charly Kleissner, KL Felicitas Foundation
Emilie Cortes, Compton Foundation
James Perry, Panahpur Foundation
Dr. Julia Balandina Jaquier, JBJ Consult
Stephanie Cohn Rupp, Veris Wealth Advisors
Sandra Stewart and Anya Khalamayzer, Thinkshift Communications
Further anonymous contributors and reviewers

List of Participating Foundations

Forsythia Foundation
Bewegungsstiftung
Compton Foundation
Eric Jacobsen - Family Foundation
Fink Family Foundation
The F.B. Heron Foundation
The Impact Investing Foundation
KL Felicitas Foundation
New Belgium Family Foundation
Nia Community Foundation
Panahpur Foundation
Tara Health Foundation
Tellus Mater
Tides Foundation
Three additional foundations who chose to remain anonymous

Supporters

This report was made possible with the generous support from:

FORD FOUNDATION
KL Felicitas Foundation
MacArthur Foundation
The Nathan Cummings Foundation
Omidyar Network
Tara Health Foundation

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