Inside Philanthropy

Who's Funding What, and Why

A Big Step: How One Foundation Overcame Doubts and Moved Forward with Impact Investing

Tate Williams | February 10, 2017

For very good reasons, more foundation leaders are taking steps to align their investments with their missions. It makes sense, especially for justice or environment funders concerned that the great majority of their institutions' wealth is locked up and not helping, and possibly even inhibiting, their programs.

After all, why would you be hyper-vigilant about where that annual 5 percent or so cut goes in the form of grants, as most funders are, and then be comparatively disengaged with investments?

And yet, cracking the code of impact investing is clearly a big challenge. For starters, boards are extremely protective of their assets, for understandable reasons. Impact investing also requires certain skills or mindsets that program staff or investment teams often lack. And impact investing is still largely uncharted waters. This is evidenced by the fact that only a relatively small pool of funders and foundation assets are invested with their missions in mind.

So it was exciting to see that the Surdna Foundation, a medium-sized, family-governed foundation prominent in social justice grantmaking, is not only carving out $100 million, or 10 percent, of its endowment for impact investing; it also released a report outlining how they got there.

This is tough terrain, even for a pretty forward-thinking funder. In Surdna's case, there's a 13-person board, including eight members now representing the fourth and fifth generations of the Andrus family. I don't know what *your* family is like…

So it took a while to get there. The report states that they explored the idea back in the early 2000s, but didn't find a compelling enough path. Some of that initial resistance lingered as they took another hard look in 2014. This was after they had realigned their mission back in 2008 to put a deeper focus on justice, reigniting board and staff interest in how they might put their assets to work, or at least make sure they weren't inhibiting progress.

They did a lot of expected things, like forming a working group and hiring consultants, and you can read about the entire process here. But a few things jumped out:

• There was a big learning curve. "Early on, it could feel like we were lost in a field of corn. As you learn, the paths become clearer," one working group member said. The process entailed a lot more education on basic finance than anticipated.

• They started with program-related investments, or PRIs, which are closer to grants that seek a programmatic outcome, while often anticipating some kind of return as a secondary concern. This was a big step around 2013, and it happened as they were developing new grant strategies to coordinate efforts.

• Rather than charging ahead for one outcome, the working group intentionally represented varying, passionate opinions on impact investing within the foundation.

They made learning the first priority to “calm the waters.” Diverging opinions actually kept up momentum, and helped them gain full buy-in.

• Values within the foundation diverged in ways they had not confronted before. It’s hard enough to agree on a mission and grantmaking strategy, but getting into impact investing dredged up fresh conflicts, particularly over divestment and negative screens, and investments in fossil fuels, nuclear power, fracking, guns and private prisons. Surdna is currently not one of the foundations that has committed to divesting from fossil fuel holdings. The foundation decided to table certain things like negative screens and shareholder engagement in the moment, which not everyone was happy about, but it kept things moving.

• They got a lot of help. Not just from consultants, but they went to a lot of conferences and met separately with the McKnight Foundation, which had just undergone a similar process, carving out $200 million of its $2 billion endowment.

So where did Surdna end up, and who’s benefitting? The $100 million will go to PRIs closely tied to grantmaking strategies, as well as mission-related investments, or MRIs, which may be more tangential, but align with the funder’s values while also delivering returns. Examples include a $5 million commitment to a venture capital fund that only invests in companies that promote social and environmental improvements, and a $700,000 loan to a community development financial institution in New York City that supports minority and women-owned contractors.

Unlocking a foundation’s assets as a way to create change, frankly, sounds like a pain. But like many other institutions that go through the process, Surdna insists it was hugely valuable, and it's just getting started. The foundation is also making grants to help expand the field itself.

As one working group member put it, “Using only one of the lanes available to us is not taking full advantage of the opportunity of philanthropy.”

Okay, so chalk up another step forward for impact investing in foundation land. Which funder is going to take the plunge next?