



IMPACT INVESTING

AN INTRODUCTION FOR FUNDERS

A resource from



GRANTMAKERS
IN AGING

Prepared by



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UNDERSTANDING THE POWER AND POTENTIAL OF IMPACT INVESTING

The field of impact investing has developed over more than five decades, gaining traction as a lever for driving social change and equity, and as a prudent investment strategy.

Many types of organizations have taken up the approach, including foundations, faith-based organizations, health systems, pension funds, insurance companies, corporations, wealth managers, banks fulfilling the Community Reinvestment Act, and individuals seeking social and environmental benefits alongside financial returns. Government is also a frequent partner.

Still, impact investing is relatively new to many philanthropic funders, which has led trustees, staff, and fiduciaries generally to ask how they could or should apply impact investing and broader social investing techniques to advance their missions and values.

This guide is intended to give Grantmakers In Aging (GIA) members and other funders an understanding of impact investing — specifically within the philanthropic context — by defining key terms and sharing examples of how it is already being used.

Impact investing takes two main forms: providing loans to or investments in change-making organizations and choosing investment asset allocations (such as endowment funds) that strive to advance social and environmental solutions while also producing financial returns. This guide covers both but focuses more on providing loans and investments directly to nonprofits and communities.

This guide is part of a project undertaken for GIA by Lisa Richter of Avivar Capital, a U.S.-based, SEC-registered investment advisor focused exclusively on assisting institutions in the design, development, and execution of impact investing strategies, portfolios, and funds. GIA hopes it will help funders consider whether impact investing might complement their other funding strategies.

A longer report, *Grantmakers In Aging's Guide to Impact Investing*, also prepared for GIA by Avivar Capital, may be useful to those who want to delve deeper into specific strategies and can be found at: www.giaging.org/initiatives/impact-investing.

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WHAT IS IMPACT INVESTING?

The term “impact investing” encompasses a wide array of strategies and investment vehicles, but a useful definition is this: *Impact investing means investing capital (in companies, funds, or organizations) to generate social impact and provide monetary returns.*

This is a significant departure for most funders. Many already describe their grantmaking as “investment” and seek to drive social good by funding change-making organizations. Still, getting grant money back has not traditionally been a goal.

By contrast, repayment is integral to impact investing. While profit, and even full return of principal, are not guaranteed (similar to most types of financial investment), repayment is structured into impact investments.

NEW OPTIONS UNLOCK MORE FUNDING

This flexibility means foundations’ existing funds can go further, for several reasons.

The first and the most basic rationale is simply that when investments repay (and by far the majority do), the capital can be recycled to drive additional change.

Funders gain the option to invest larger dollar amounts at any given time precisely because they can anticipate getting the money back. Because impact investments are expected to repay and recycle capital, their dollar amounts are typically much larger than traditional grants.

Impact investments often attract or leverage co-investment. They do this by creating favorable conditions for nontraditional partners, such as commercial real estate developers and commercial lenders to

get involved, often on large and high-cost projects involving housing or building. ([See: Impact Investing in ... Affordable Housing](#))

Impact investing offers additional strategies for philanthropic funders to leverage their available funds, such as providing loans and loan guarantees, creating loan pools, and providing capital to mission-driven lenders known as Community Development Financial Institutions (CDFIs). ([See: What is a CDFI?](#))

Impact investments that focus on healthy aging and stronger communities can often harness the contributions of experienced older adults, while reducing the costs of preventable care.

IMPACT INVESTING IN... AFFORDABLE HOUSING



Wisconsin-based Bader Philanthropies has a history of combining traditional grantmaking with impact investing in the Milwaukee region, working both through intermediaries and through loans made directly to organizations to enhance affordable housing and other services for older adults.

Clarke Square Terrace is an example: Bader’s loan financing enabled development of studio, one- and two-bedroom affordable rental units for people age 55+ as well as support for Activities of Daily Living, transportation, and group activities. Located near a grocery store, restaurants, and churches, the property is 10 minutes from downtown Milwaukee and 15 minutes from Mitchell International Airport.

Pivotal financing came in the form of a \$1.285 million loan from IFF – the largest nonprofit CDFI in the Midwest, which had received investment from Bader Philanthropies in the past.

More recently, as part of COVID response, Bader extended additional Program Related Investments (PRIs) to strong community service providers focused on older adults including veterans.

IS IMPACT INVESTING APPROPRIATE FOR YOUR PHILANTHROPY?

Impact investments should support your mission and hold out the prospect of repayment. You will want to evaluate each opportunity along both of these dimensions.

- **Mission Fit**
Like grants, impact investments require making the case for mission fit — an “impact thesis” that sets out how the investment advances the investor’s mission or values.
- **Repayment Capacity**
Unlike grants, impact investments also require demonstration of repayment capacity – an “investment thesis.” Typically, this includes both the prospect of return of investment principal (the original amount of money invested) and return on principal (additional money earned during the term of the investment).

Repayment is practical for nonprofits pursuing certain types of projects. Primary repayment sources typically include:

- Predictable cash flows (such as reimbursements for care, rents collected, or pledged future grants).
- Savings (such as lower costs after energy efficiency upgrades).
- Refinancing (such as a construction loan that is refinanced by a permanent mortgage).
- Capital appreciation (such as a social enterprise that distributes earnings or increased share value to investors).
- Impact investments can also have secondary sources of repayment, such as loan guarantees or collateral.

IMPACT INVESTING IN... AFFORDABLE PRESCRIPTION DRUGS



With a focus on lowering healthcare costs to enable successful aging, the California-based Gary and Mary West Foundation is keenly aware of the problem of high drug prices.

The Foundation led the creation of Civica Rx, a nonpartisan, nonprofit pharmaceutical company that reduces and prevents drug shortages and related price spikes and works to make quality generic medicines accessible and affordable to everyone.

In a powerful example of funding synergy, a direct loan by the Gary and Mary West Foundation was followed by co-investor loans totaling \$30 million from two philanthropic partners, The Peterson Center on Healthcare and Arnold Ventures. This unlocked an additional \$70 million in funding from Civica Rx’s governing health system members.

The Civica Rx partnership then attracted a \$100 million grant from the federal Department of Health and Human Services that was the largest in the agency’s history.

ACCESSING GOVERNMENT FUNDING STREAMS

Philanthropic impact investing also helps nonprofits and other community organizations take fuller advantage of available government resources. Government provides certain resources that are designed specifically to incentivize private and philanthropic investors to invest in organizations such as CDFIs that target impact investment capital to underserved communities and populations.

These resources include government credit enhancement programs (loss protection, such as loan guarantees or tax credits) that

mitigate the risk of making such loans and investments. There are also government programs that provide financial support to intermediaries that invest in low-income and underserved communities. Finally, there is technical assistance for intermediaries that use government programs such as Small Business Administration or US Department of Agriculture loan guarantees to increase access to financing. Since access to all of these government programs is competitive, philanthropic impact investment helps CDFIs and other mission-driven intermediaries develop the track records they need to compete.

ACCESSING CAPACITY-BUILDING RESOURCES

For recipient organizations, impact investments can provide multiple benefits, over and above the dollars received. For example, a foundation's impact investment may allow the investee to demonstrate its repayment capacity, or enhance a sense of viability for the project, easing access to additional capital from other investors.

(See: [Impact Investing in ... Affordable Prescription Drugs](#))

Impact investments can also allow investee organizations to accelerate and scale their activities more quickly and more broadly because the amount of money received is often higher than a traditional grant. Both these features represent important forms of capacity-building for community-based organizations and other nonprofits *(See: [Impact Investing in ... Nursing Homes that Feel Like Home](#))*.

Tailored for small businesses, nonprofit organizations, and households, capacity building can take a variety of forms. These include help with understanding budgets and preparing to qualify for a loan or investment, extensive support for business planning, meeting space, and human

resource needs, and useful contacts with other businesses and organizations. These investments facilitate connections among organizations and businesses to create regional "value chains," that is, vendor relationships that contribute to thriving regions or sectors. They are building blocks for healthy markets in communities that have often lacked access to capital.

IMPACT INVESTING IN... NURSING HOMES THAT FEEL LIKE HOME



The Green House Project is a national model for skilled-nursing care that returns control, dignity, and a sense of well-being to older adults, their families, and staff by offering small, self-contained homes and easily navigated outdoor spaces. Care is individualized by a self-managed team of direct care staff.

Since 2002, the Robert Wood Johnson Foundation has awarded \$20 million in grant funding, primarily to Capital Impact Partners (CIP, a CDFI and a GIA member), to develop, test, and evaluate the Green House model.

In 2011, the foundation made a new \$10 million Program-Related Investment (PRI) to CIP to help the model achieve greater reach and impact. CIP used the proceeds to provide financing for the development of new Green House homes. The developers repaid their loans to CIP once the Green House homes were receiving rent and reimbursements for the care of their older adult residents. CIP then repaid its PRI to RWJF. Additional investors include AARP Foundation and Martha's Vineyard Hospital. (See: [What is a PRI?](#))

Hundreds of Green House homes have been built in more than 30 states, with more on the way.

TWO FORMS OF IMPACT INVESTING

Foundations can engage in impact investing in two main ways:

- Using targeted impact investing techniques to deliver and expand support for priority program areas.
- Seeking investment options for their traditional endowment that can reinforce the foundation's mission.

This section will provide more detail on these two approaches.

IMPACT INVESTING: AMPLIFYING RESULTS FOR PROGRAMS AND COMMUNITIES

Foundations often build initial impact investing strategies around their existing priorities, sustaining and/or scaling initiatives that they are already advancing through grants.

This work often focuses on program-related investments (PRIs) — loans and investments that accept a higher risk level and/or lower expected financial return than conventional investments in order to support a charitable purpose. For place-based foundations, these investments can back a range of organizations and projects that contribute to healthy aging within their communities. *(See: [What is a PRI?](#))*

Some common mechanisms for impact investing include:

- **Direct Loans**
These represent a source of flexible capital that is generally more risk-tolerant, patient, and affordable than traditional lenders. These features give nonprofits and other organizations more generous time horizons and freedom

WHAT IS A PRI (PROGRAM-RELATED INVESTMENT)?

An IRS term for private foundation investments that have the primary purpose of accomplishing a mission, not generating income.

Foundations and investors adapt the term “PRI” to refer to investments in which they invest on concessionary terms for philanthropic or charitable reasons.

Private foundations have the option to count qualifying PRIs toward their mandatory charitable distribution requirements (5%), among other benefits.

to focus on their mission and take advantage of opportunities, synergies, and economies of scale.

- **Loan Guarantees**
Loan guarantees enable foundations to leverage their impact far beyond the dollars they commit. Typically offered to encourage a third party (such as a bank) to make a loan by reducing that party's exposure, they are part of a broader category of “credit enhancement.”
- **Creating Loan Pools**
Using their own and other partners' assets and donations, foundations and other funders develop separate loan pools to fund nonprofit and other social enterprises.
- **Funding through intermediaries**
Community Development Financial Institutions (CDFIs), and other mission-driven funds can be important impact investment partners because they offer foundations support, administration, and expertise related to complex processes such as community real estate development or providing loans to underserved nonprofit organizations or small businesses with limited borrowing experience. *(See: [What is a CDFI?](#))*

WHAT IS A CDFI (COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION)?

A Community Development Financial Institution (CDFI) is a private financial intermediary with a mission to provide fair, responsible financing to individuals, communities, businesses, and organizations that are often underserved by mainstream finance. CDFIs combine technical assistance with their financing.

CDFIs include community development funds, credit unions, and banks that typically take in loans or investments from foundations and other institutions which they reinvest as loans to community organizations, such as affordable housing developers. CDFIs bring expertise in sourcing deals, due diligence, underwriting, and loan servicing.

GIA members Capital Impact Partners and the Corporation for Supportive Housing are two examples of a CDFI.

OTHER IMPORTANT PLAYERS

Critical partners in this ecosystem that can offer foundations additional and complementary services to enhance the odds of program success include:

- Government agencies (technical assistance and credit enhancement);
- Financing intermediaries (technical assistance along with financing);
- Business consultants;
- Professional advisors (such as attorneys and accountants); and
- Organizations that offer combined resources in local and/or virtual hubs, accelerators, and venture studios.

(See: [Impact Investing in ... Companies that Serve Older People](#))

For more detail, please consult the full report prepared for GIA by Avivar Capital, *Grantmakers In Aging's Guide to Impact Investing*, at: www.giaging.org/initiatives/impact-investing.

IMPACT INVESTING IN...COMPANIES THAT SERVE OLDER PEOPLE



The SCAN Foundation, based in Long Beach, California, observed that very few companies were creating well-designed products for older adults, even though the market is enormous (55 million people).

The foundation created Alive Ventures to explore how venture capital can spark the creation of new companies that make attractive, accessible, and affordable goods and services that older adults love using.

Alive Ventures was incubated for 18 months within The SCAN Foundation, then spun off with \$12 million in phased investment and a financial commitment from the foundation. From 2020 to 2022, when it closed, Alive supported a dynamic portfolio of inclusive companies and partners that continue to broaden the market of high-quality products sensitively and sensibly designed to meet the unique needs and aspirations of older people.

IMPACT INVESTING: IN FINANCIAL MARKETS

Foundations with endowments can practice impact investing and broad social investing through the asset allocation choices they make in the public and private markets. Here, they typically try to achieve their impact goals while meeting or exceeding an expected risk-adjusted, market-rate financial return (or, what a conventional investor would expect from a similar investment).

Among foundations, such investments are often called mission-related investments or MRIs. (See: *What Is an MRI?*)

WHAT IS AN MRI (MISSION-RELATED INVESTMENT)?

An MRI is a foundation-specific term for investments that seek a market- or near market-rate financial return while also seeking a double or triple bottom line of social and/or environmental benefit. It is not an official IRS designation.

The practice, called Sustainable and Responsible Impact Investing (SRI), was originally based on screening out or excluding investments in public companies with operations viewed as harmful to society and/or the environment. Today, SRI techniques also include screening in or including companies considered “best in class” on Environmental, Social, and Governance (ESG) criteria.

SRI also includes screening of entire portfolios on ESG factors (ESG integration), sustainability-themed investing, and shareholder engagement (using voting

proxies and other means to encourage management of publicly traded companies to adopt responsible ESG practices).

For much more detail on the technical, asset class, fiduciary, and governance aspects of impact investing, please consult the full report prepared for GIA by Avivar Capital, Grantmakers In Aging’s Guide to Impact Investing, at: www.giaging.org/initiatives/impact-investing.

MOVING FORWARD

For a growing number of foundations, impact investing serves as an important strategy that can provide benefits traditional funding approaches simply cannot match. These approaches, when well implemented, can help philanthropy leverage its resources in ways that amplify funder influence and address systemic and racial inequities in communities, bolstering infrastructure and new economic markets.

Of course, impact investing is not always the right solution. There must be a strong mission fit and the capacity to repay the initial investment. The work requires specialized financial expertise, new partners, and a relatively long time horizon. Still, it can enable grantmakers to dramatically expand their funding and accelerate progress toward their mission.

We hope this primer encourages more of GIA’s members and other foundations to explore how impact investments can play a transformative role in making communities more inclusive and equitable.

RESOURCES

[Global Impact Investing Network \(GIIN\)](#)

A nonprofit organization dedicated to increasing the scale and effectiveness of Impact Investing around the world. Also see: [Global Impact Investing Network: What You Need to Know about Impact Investing](#).

[Mission Investors Exchange](#)

The leading network for foundations seeking to grow and deepen their Impact Investing practice.

[Tonic](#)

A global action community for impact investors serving individuals, family offices, foundations, and funds.

[ESG and Financial Performance: Aggregated Evidence](#)

A meta study of over 2,000 studies on the business case for ESG investing.

[How and Why SRI Performance Differs from Conventional Strategies](#)

A study on the differences in SRI and non-SRI domestic equity mutual fund performance.

[USSIF Sustainable, Responsible and Impact Investing \(2018\)](#)

A resource providing information on broad trends and financial and social performance of Impact Investing.

[Acumen Fund Concepts](#)

An overview of Acumen Fund's approach to quantifying an investment's social impact and comparing it with existing charitable options for that explicit social issue.

[Urban Institute: Place-Based Impact Investing Ecosystems](#)

An overview of approaches and examples to build a PB ecosystem and share practitioner lessons for igniting collaboration.

[Mission Investors Exchange Resources: Diversity in Asset Management](#)

A compilation of reports on diversity in the capital markets.

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About Grantmakers In Aging (GIA)

Grantmakers In Aging is a membership organization that serves as a network and resource for funders and a champion for aging-related issues and investments. GIA works to mobilize the social, intellectual, and financial capital required to catalyze change and improve the experience of aging, now and in the future. GIA's vision is a just and inclusive world where all people are fully valued, recognized, and engaged at all ages. Learn more at GIAging.org.

About Archstone Foundation

Archstone Foundation is a nonprofit, non-partisan, private foundation dedicated to improving the health and well-being of older Californians and their caregivers. Since its inception, the Foundation has responded to the implications of California's changing demographics by funding initiative-based grants, educational programs, and innovative responses to the emerging and unmet needs of this growing number of older adults. Archstone Foundation has also funded a wide range of grantees making important contributions in critical, yet often overlooked areas of need. Since its inception, the Foundation has awarded nearly 1,200 grants with a total value of more than \$120 million, well surpassing its initial endowment. Learn more at archstone.org.

About Avivar Capital

Avivar Capital is an SEC-registered investment advisor focused exclusively on supporting institutions and families in the design and execution of impact strategies for social and/or environmental benefit as well as financial return. Learn more at avivarcapital.com.



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