Fondation 3.0

FOUNDATION FOR FUTURE GENERATIONS

FONDATION DE FRANCE

Implementing an impact and program-related investment strategy

Introduction – Foundation 3.0 Strategic Round Table

Brussels, 3 - 4 July 2014

Overview

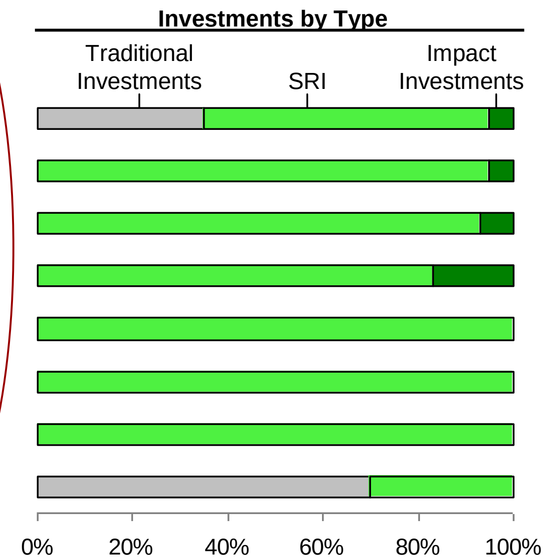
- Putting PRI/Impact investing in context – the link to our March meeting
- Questions we want to focus on today
- The characteristics of PRI vs. Impact investments
- The view of regulators

- Advantages/disadvantages of investing through funds
- European impact fund landscape

Impact investing is part of the mission investing ‚toolbox‘ of foundations

(European case-studies from Mistra report)

	SRI Approach					
	Negative Screening	Best-in-Class / Positive Screening	Thematic Funds	ESG Integration	Active Ownership	Impact Investing
Fonds 1818	✓				✓	✓
Friends Provident	✓	✓				✓
Fondazione Cariplo	✓	✓				✓
Dreilinden		✓				✓
Church of Sweden	✓	✓		✓	✓	
Mistra	✓	✓	✓	✓	✓	
Fondation de Luxembourg	✓	✓				
DBU	✓	✓	✓			



Source: Mistra/onValues

Questions for today

1. When is PRI / Impact Investing an effective tool for foundations? Are there certain conditions (in terms of the sectors targeted, the mission of a foundation, etc.) that make it particularly effective?
2. What is required in terms of internal governance, board support, management resources, integration in strategy for it to happen?
3. What are advantages/disadvantages of program-related vs. broader impact investments? What are limitations imposed by regulators (e.g. with regard to foundations' tax-exempt status)?
4. What are practical solutions for managing risks related to these investments? How can intermediaries help?
5. What are practical solutions for reducing cost/time/knowhow required to select and monitor these investments? How can intermediaries help?
6. Can impact be assessed/reported in a way that fulfils foundations' needs?

One goal (impact) – Two approaches

- Program-related investments: Investments in organisations that the foundation already knows well from its grantmaking -> often treated as part of grantmaking, not as part of the endowment *)
- (externally managed) Impact investments: Professionally managed by third-parties, better risk-return profile and diversification (in case of funds) than PRI -> usually part of the endowment

*) Can take several forms: loans (senior and subordinated), loan guarantees, lines of credit, linked deposits, cash deposits, bonds, equity investments

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Definition of ‚Impact investments‘

- Impact investments are investments made into companies and organizations with the intention to generate social and environmental impact alongside a financial return, and for which it is possible to measure and report social/env. performance

  (www.thegiin.org)

Guidance on PRI (example of the UK Charity Commission

(‚Charities and investment matters‘, 2011)

- The charity’s main reason for making PRI is to help its beneficiaries, not to achieve a financial return
- Trustees should consider how the PRI compares with other ways of advancing the charity’s purposes in terms of effectiveness and risk
- Permanent endowment generally cannot itself be used to make PRI, but income from the endowment can. Trustees can decide to remove the permanent endowment restrictions if they believe that this will allow the charity to carry out its aims more effectively.

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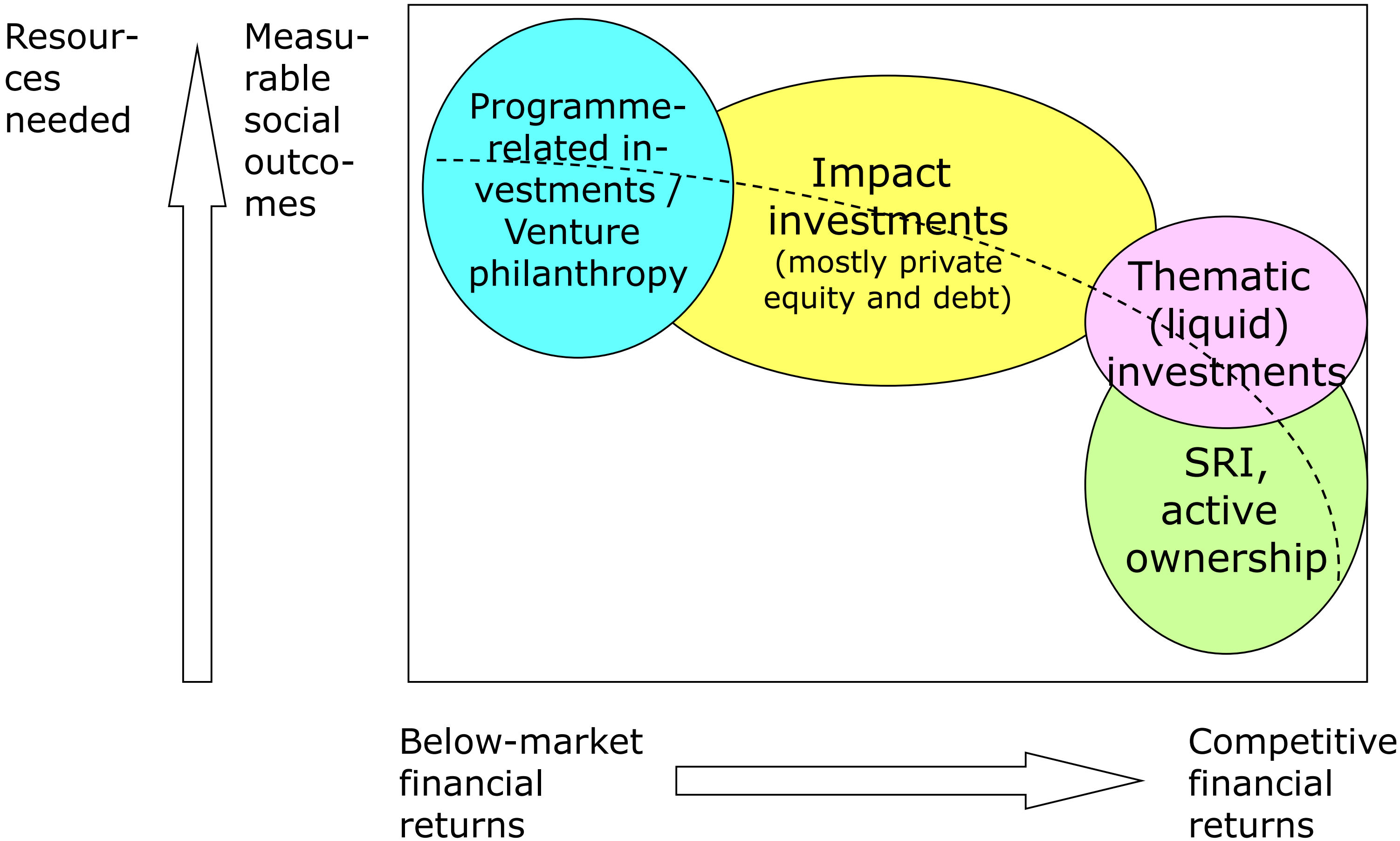
Putting PRI and Impact Investments on the impact/financial return map



Source: onValues

The view of foundation regulators (in many countries)

- PRI: Problem of money flowing back. Treat separately from endowment as ‚revolving funds' being reinvested for mission. Avoid ‚market returns' *) and investing in mature markets where you are competing with commercial providers.
- Impact investments: Concerns over lack of diversification and higher risk for the endowment. OK if it is a small part of the investment portfolio.

*) US: No Significant Investment Purpose: Investment return must be lower than for investors solely seeking a profit

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Advantages / disadvantages of impact funds

- Professionally managed
- Better diversified (lower risk) than direct investments
- Opportunity to share costs and investments (co-investing) with other investors
- Sometimes expensive and commercially driven
- Often difficult to find funds that match the foundation‘s mission
- Impact reporting not always satisfactory

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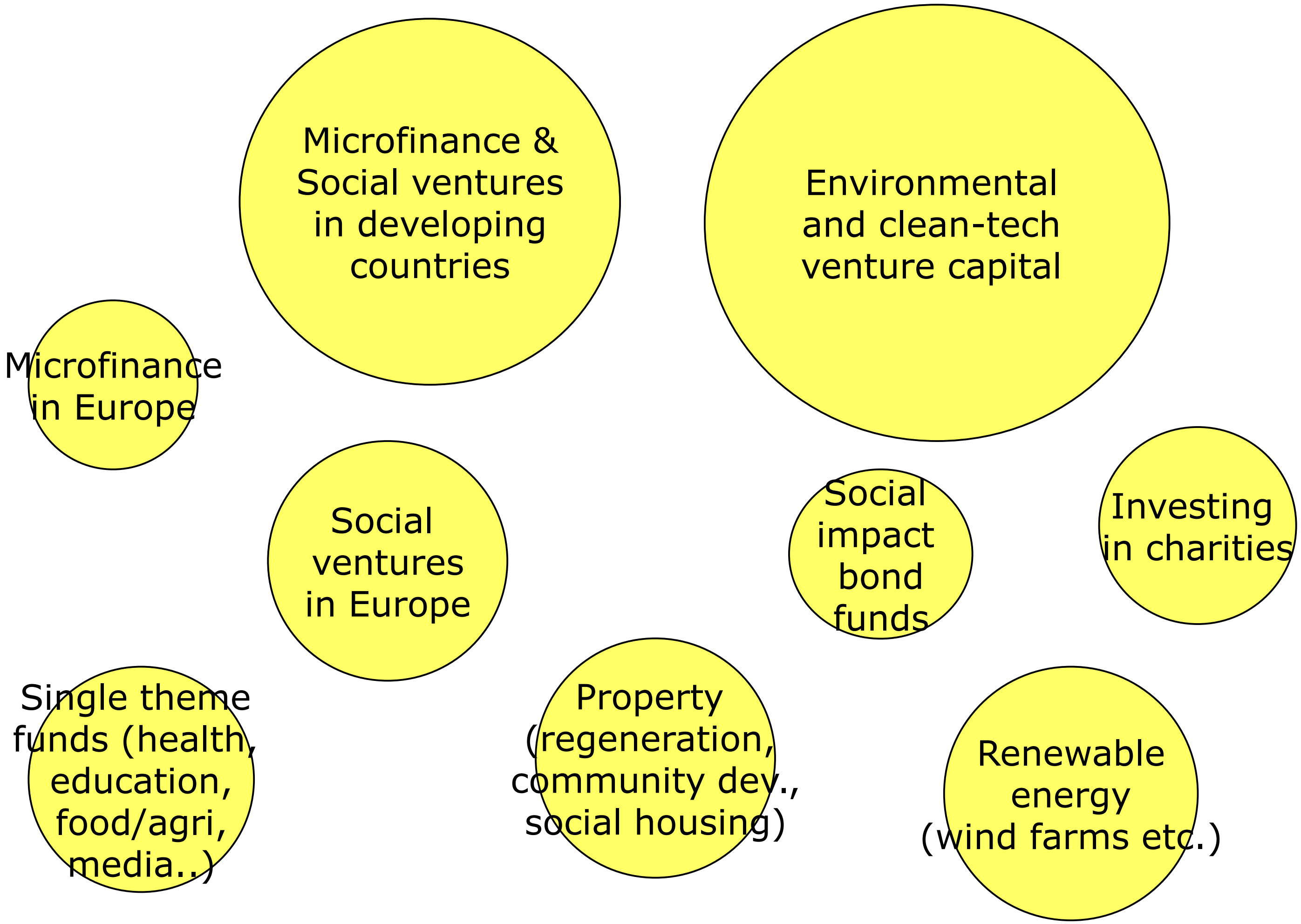
Organisations like the Global Impact Investing Network (GIIN) have developed impact reporting frameworks that the funds are increasingly using

Sector	Illustrative Examples of Measurable Social or Environmental Outcomes
Agriculture	Increase in productivity or crop yield as a result of improved technology or training
Education	Participation rates of girls in secondary education in sub-Saharan Africa
Energy	Number of individuals at the base-of-the-pyramid who gain access to electricity
Environment	Tonnes of CO_2 equivalent offset as a result of organization's product or service
Financial Services	Number of micro-insurance products sold to people with AIDS and infected with HIV
Health	Readmission rate of diabetes patients using innovative product for monitoring health
Housing	Reduction in the rate of homelessness among major US cities
Water	Number of individuals at the base-of-the pyramid who gain access to clean water

Source: WEF, 2013

European impact fund landscape

Large bubble: 15-30 funds
Mid-sized bubble: 5-15 funds
Small bubble: 2-5 funds



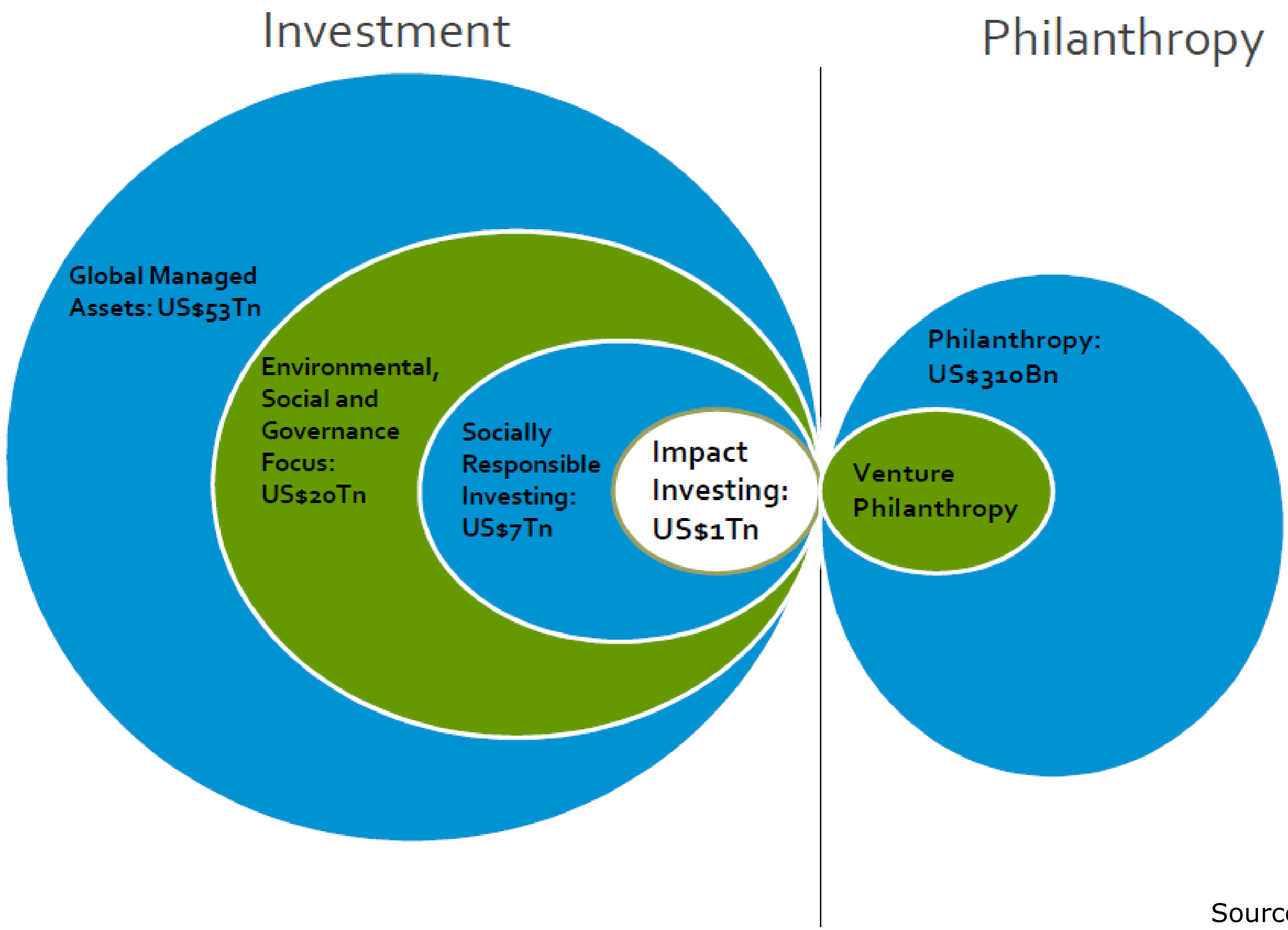
Trends in the European impact fund landscape

- Increasing number of incubators/accelerators/angel investor clubs for social ventures -> more investment opportunities in the future
- Linear growth in assets and number of funds; larger number of themes covered
- Problem that many funds remain small, expensive and risky
- Problem that banks and consultants are not knowledgeable about the field
- Fund managers working on more liquid/less risky (debt) strategies
- European Social Entrepreneurship Funds Regulation (“EuSEF”) and label

"Impact investing opened up the foundation. Now we are engaged in the market in new ways and talking to people we would never have met otherwise".

– DANIELLE WALKER PALMOUR

Very different size of markets



Source: www.asiaiix.com