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Shifting role for foundations

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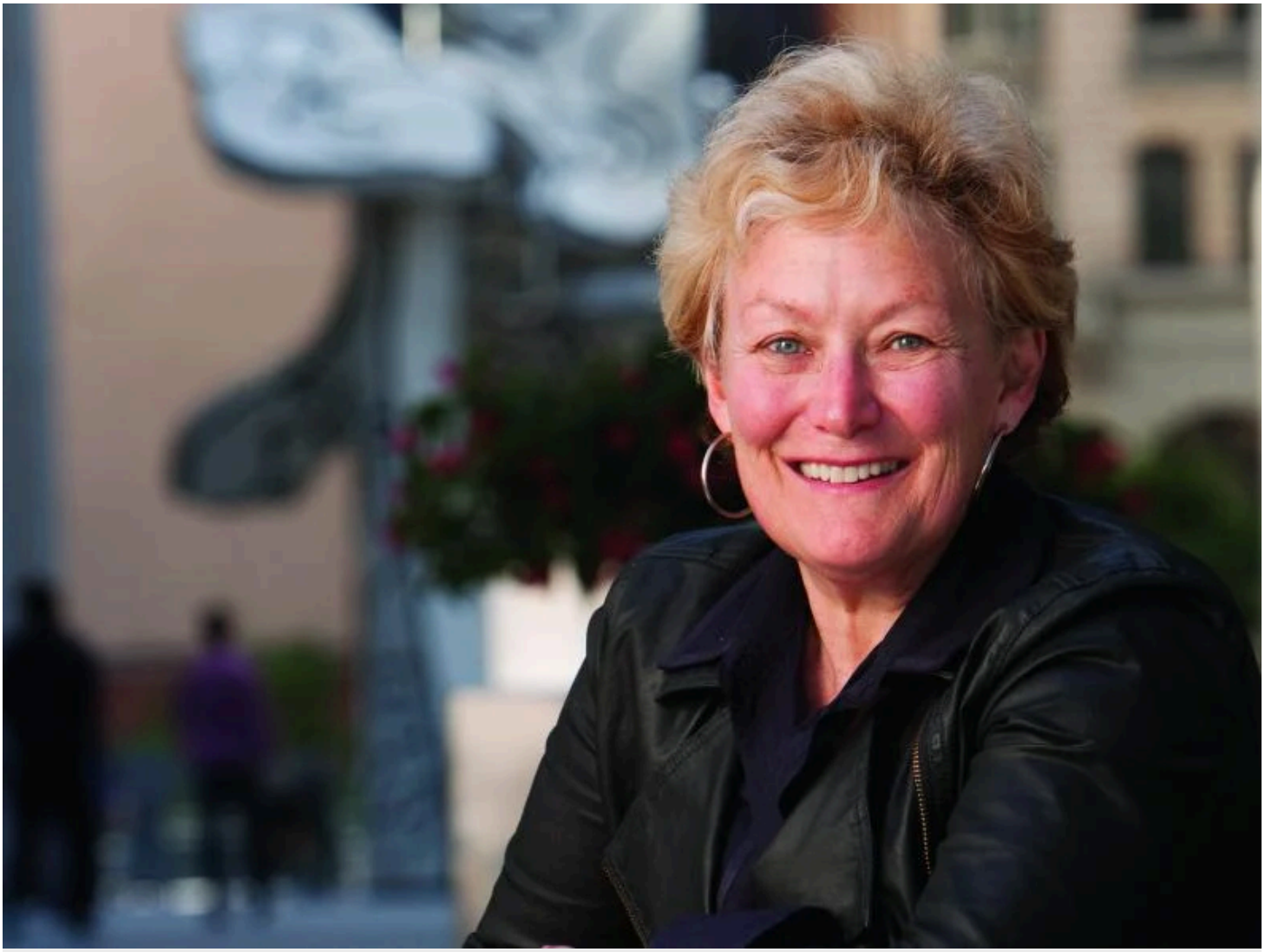

Buck Ennis

F.B. Heron Foundation President Clara Miller is placing her entire $300 miller endowment on the line.

When Clara Miller took over the F.B. Heron Foundation, which focuses on fighting poverty, she was unhappy with what she saw. Not only were U.S. poverty rates stubbornly high, but income inequality also was on the rise.

"If our mission was to raise people out of poverty, we weren't doing very well," said Ms. Miller, who became president of the Manhattan-based organization three years ago. "We needed to do more."So she took a rare, if almost unheard of, step in the foundation world—where typically only 5% of endowment principal is doled out to charity every year. Heron would move its entire $300 million endowment into investments that provide both social and financial returns. By the end of this year, 63% of Heron's funds will be invested in such vehicles. Ms. Miller hopes to be 100% invested in social-impact causes by 2017.

That is a major departure from the typical foundation strategy of using the endowment solely to generate financial returns to fund grants to nonprofits. Heron is making the shift at a time when other foundations, as well as governments and corporations, are trying to find investments whose benefits extend beyond the financial.

In the past year, the Pershing Square Foundation has used its $90 million endowment to make three social-impact investments, in addition to the grants it makes. This past summer, the Michigan-based Kresge Foundation announced it would pour $10 million into the Kingsbridge National Ice Center in the Bronx to help revitalize the surrounding neighborhood. And to facilitate similar efforts, Goldman Sachs Group Inc. started a social-impact investment fund that has attracted $150 million from clients to finance projects such as affordable-housing complexes and health care centers. Late last year, New York became the first state to introduce a "social-impact bond" for which investors are repaid based on whether certain targets are met. The state's first such project: working with a nonprofit to reduce prison recidivism rates."There is a much larger market now in social and mission-related investments," said Brad Smith, president of the Foundation Center in New York.The movement stems from several factors. There is a general realization that government and nonprofits cannot solve all of society's problems. What's more, in a recent study, U.S. Trust found that half of high-net-worth individuals consider social and environmental impact an important part of their investment-making decisions—up from 45% last year. One-third of very wealthy investors have funneled money into such vehicles or are interested in them, including 66% of millennials. In contrast, only 27% of baby boomers felt the same way."The young are helping drive the trend," said Antony Bugg-Levine, CEO of the Nonprofit Finance Fund. "Millennials disregard the idea that your business, philanthropy and social priorities are separate. They just look at how to solve problems."

WIDENING THE FUNDING POOL

Earlier this year, Rockefeller Foundation President Judith Rodin and co-author Margot Brandenburg wrote *The Power of Impact Investing: Putting the Market to Work for Profit and Global Good*, to help further the idea of social investing. The foundation has long been a supporter of the concept, having spent $50 million over seven years to create tools to measure the returns on such investments.

Most social investing is now done by foundations and high-net-worth individuals. Ms. Rodin said she'd like to see that pool widen to include more private capital.

The book helps investors decide if such investments are appropriate for them. It discusses the questions investors should ask themselves before taking the plunge, such as whether they have impact goals and what types of returns they are seeking.

"We aren't proselytizing to change everything and everyone," said Ms. Rodin. "It is about having more quivers to diversify your investments."

Value alignment

Andrea Phillips, a vice president for the Goldman Sachs Urban Investment Group, said investor demand pushed the bank to start the fund. "I think people just want to align their investments with their social values," she said. "[Social-impact investing] is not going to replace philanthropy, but it is another tool to address problems."

Ms. Phillips declined to divulge the Goldman fund's projected returns. Separately, 46% of those surveyed by U.S. Trust said they would accept lower returns from companies that have a greater positive social or environmental impact.Yet experts say that social-impact investments don't necessarily mean lower returns. If more money were invested in such vehicles, the effect could be enormous. Even investing more endowment money from foundations could create a massive pool of money for charitable projects. Collectively, U.S. foundations have about $715 billion in assets, and they give away some $55 billion in grants a year, according to the Foundation Center.Finding social-impact investments that provide good returns can be challenging, however. Reasons for that include a lack of tools to balance community benefits with financial returns from for-profit investments. There's also concern that investments chosen for their social and financial benefits won't generate high enough returns either to please investors or keep endowments' coffers sufficiently filled.That's why the move by Heron, which was started in 1992 with an anonymous grant, is especially noteworthy."What they are doing is highly unusual," said Phil Buchanan, president of the Center for Effective Philanthropy. "They are going in whole hog in a way we don't usually see."Ms. Miller, who was president and chief executive of the Nonprofit Finance Fund before joining Heron, said the foundation's new strategy has been difficult because of the lack of data to completely measure outcomes. Still, she thinks it is a vital change."Public foundations have a duty to employ all their assets for their mission," said Ms. Miller.

'Better balance sheet'

More specifically, she explained that the foundation decided that a major focus had to be on the creation of good-paying jobs because that would eliminate homelessness and hunger. Finding investments that earn decent returns while creating jobs that do not exacerbate social ills can be difficult, however.

For example, Wal-Mart has been a leader in reducing packaging on consumer goods, which benefits the environment. But Heron won't invest in the chain because of what the foundation described as wage issues.Conversely, Starbucks, which has generated controversy over some of its employment practices, is in Heron's portfolio because, Ms. Miller said, "overall, they are very good to their employees."Difficult as such investing may be to pull off, it has worked well for Heron so far. Ms. Miller noted that the foundation's endowment earned 16% last year, and has averaged 11% over the past five years. To select its investments in both public and private companies, Heron works with outside consultants.Earlier this year, the foundation lent $5 million to Craft3, a nonprofit that makes loans to small businesses. It was part of a consortium including Wells Fargo and JPMorgan that lent a total of $31.5 million to the Seattle-based organization. John Berdes, chief executive of Craft3, said Heron's move from grantor to lender wasn't a surprise, and is good for the organization."Capital delivered in the form of an investment is more powerful than capital delivered in a grant because it allows us to keep running," said Mr. Berdes. "We are building a better balance sheet."Similarly, Kevin Parker, founder of the Kingsbridge National Ice Center, said the $10 million investment from Kresge was vital to the project."They are top-of-the-line, so having them in validates the project," he said.

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