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An Impact Investing Primer and Maclellan Foundation Case Study



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An Impact Investing Primer

Entrepreneurial donors are beginning to believe that business with purpose has the power to do more than charity alone. They're looking to invest their charitable assets in for-profit businesses that return financial profit and have a measurable social and spiritual impact too. It's called Impact Investing and it's growing fast, especially among women and millennials. Forbes has named it the #1 trend in philanthropy for 2015 and 2016, as it gains attention from Wall Street and mainstream investors alike.

Maclellan Foundation's Journey to Impact Investing

Over the past 30 years, The Maclellan Foundation, Inc. has been a leader in the global generosity movement. The foundation has focused its grant-making on establishing and strengthening the church, promoting discipleship and leadership development, sparking community transformation, and increasing access to Scripture.

Maclellan continually seeks to maximize the use of foundation assets. In recent years, next generation board members have been promoting the idea of impact investing—using the foundation's corpus to make social and spiritual impact while receiving financial returns. Since its initial impact investment in 2013, Maclellan has steadily increased its allocation of funds to what it calls "mission-related investing." To date, they have reviewed 250 potential deals and made over 20 investments. When asked why the Foundation has come to embrace a practice it once avoided, the answer is clear: activating the endowment for investments that directly advance the mission accomplishes more Kingdom good. In effect, the same money can be used over and over again



Impact Investing Defined

Investing in companies, organizations and funds with the intention to generate social, environmental and spiritual impact alongside a financial return.

to accomplish programmatic goals. First, through the investment itself and, second, when profits return and can be granted to charities. Think of it as compounding impact.

In addition, opening the Foundation to for-profit entrepreneurs brings an entirely new group of smart and thoughtful leaders into Maclellan's sphere of influence.

A generation ago, the nonprofit community was the main place focused on transforming the world for the better. It used to be that if you wanted to make money you'd start a business, and if you wanted to make a dent in global poverty, transform a local community, or care for widows and

orphans, you needed a charity. Similarly, 20 years ago the brightest minds seeking to transform their world went to work for a nonprofit. But that is not always the case today.

"We've been fortunate to get to meet some incredible leaders and see amazing works being done in the nonprofit community," says family member Daryl Heald. "This new generation of leaders isn't content to seek impact only in the context of a donation-funded nonprofit. If we weren't making impact investments, we would miss out on some of the best solutions and leaders out there."

Maclellan's friend Neil Ahlsten is a great example. Neil left a great job at Google to create a prayer app, Abide, designed to make the power of prayer easy and available to be shared anytime and anywhere. Rather than funding the company with donations, Neil formed a for-profit company and rounded up investors. If Maclellan Foundation were not willing to make impact investments, they might not have come across the innovative work being done by Neil and his team.

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Key Learnings

Maclellan's experience with impact investing is illustrative of the principles other donor-investors need to apply.

1. Achieving big goals requires bringing investment capital alongside philanthropy.

Charity is a necessary part of the economy and cannot be entirely replaced by strategic, missional investing. Giving financially to support the Church (in the big global sense as well as the local church community) is an entirely biblical idea. Financial generosity is part of God's design for His world. It's not going away. There will always be causes—like evangelism, Bible translation and many others—that should not be expected to fund themselves on earned revenue alone.

Furthermore, the experience of early impact investors suggests outcomes are achieved faster when charitable capital and investment capital are paired. Charitable capital is uniquely suited to stabilize a community after disaster or war and to provide the kinds of healing services required before individuals traumatized by violence can receive the full benefits of economic empowerment.

2. Impact requires rigorous investment discipline.

Impact investing carries the same varied levels and types of risks as traditional investing. Letting one's passion for transformation get ahead of one's experience and expertise is a recipe for trouble. Obtaining the financial and impact goals that we seek requires excellent due diligence and deal structure.

Chris Maclellan, Chairman of the Investment Committee for Maclellan Foundation, spent nine months researching and planning before introducing the concept to the organization's board of directors. He notes, "For those considering the space, I would recommend that they start with impact funds. This gives mission investors immediate visibility into deals and how the fund managers exercise due diligence." For foundations with an existing private equity portfolio, the leap to impact investing is not too difficult; but for those who do not have this experience, it can be trickier to get started.

Even the best designs
for impact will come to
naught if the business
cannot keep its doors
open for lack of profit.

Early movers in the impact investing space, such as Rockefeller Foundation and Case Foundation, have published a number of helpful resources. Many of these tools are available for free to help get you started.



Impact Investing Resources

Mission Investors Exchange | missioninvestors.org

Rockefeller Philanthropy Associates | rockpa.org

Global Impact Investors Network | thegiin.org

3. Investing for missional outcome doesn't require sacrificing financial profit.

The first Impact Investing benchmark study, published in 2015, showed that impact investment funds outperformed their benchmarks in the aggregate. The study, performed by Cambridge

Associates and the Global Impact Investing Network, looked at 75 funds from 1998 to 2010. Specifically, the survey found:

“Impact investment funds that raised under \$100 million returned a net IRR of 9.5% to investors. These funds handily outperformed similar-sized funds in the comparative universe (4.5%), impact investment funds over \$100 million (6.2%), and funds over \$100 million in the comparative universe (8.3%). Emerging markets impact investment funds have returned 9.1% to investors versus 4.8% for developed markets impact funds. Those focused on Africa have performed particularly well, returning 9.7%.”

For those of you who don't love numbers, this means investments aligned with mission do not need to sacrifice financial gain.

4. *The options for impact investments are global and industry agnostic.*

Impact Companies can be found in nearly every industry and nearly every spot on the globe. Not too long ago people had just two lenses through which to view the private economy—something was either a business or a nonprofit (charity/church/ministry). Today, those two traditional classifications constitute the ends of an increasingly-crowded continuum. On the left, the focus of the enterprise is mainly (or solely) financial profit without intentional affects on employees, vendors,



the community, the environment, or other stakeholders. Similarly, on the right, the focus is mainly (or solely) on the mission or the cause that the organization seeks to address (e.g., providing clean water or ending sex trafficking).

The sweet spot for impact investing can be found at the intersection of maximum risk-adjusted financial return and measurable social/spiritual impact. Impact is not an asset class. It can be found through investments in early-stage technology companies, agriculture-focused economic development venture funds, US-based private equity firms, social impact bonds, international loan funds, or even loans directly to individual charities.



About Impact Foundation

Impact Foundation is a 501(c)(3) public charity that exists to help generous donors boost the impact of their charitable giving by investing in businesses producing social and spiritual impact alongside financial returns. Impact Foundation offers donor-investors a streamlined pathway to invest charitable assets in private companies and private equity. Through a strong network and specialized charitable structure, Impact Foundation connects people to sound investments with real impact.

Get Started Today

Call Jeff Johns at 505-604-0900 or Aimee Minnich at 816-853-4469 with opportunities or questions.

Keep up with Impact Foundation and learn more about investing for profit and good by signing up for our newsletter at impactfoundation.org

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