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Impact Investing for Nonprofits, Endowments and Foundations

Non-profit endowments and philanthropic foundations are increasingly interested in how their investment practices can be aligned with the institution's mission, values and goals. One way to do that is impact investing, which is a process designed to align environmental, social, governance and faith-based goals with an investment portfolio. As impact investment opportunities become more prevalent, institutions are taking notice on behalf of their stakeholders.

In the past, investors of philanthropic funds have not had much evidentiary support for investing alongside their mission. Now, there are three converging trends making it easier for fiduciaries to implement impact investment programs that are capable of delivering competitive returns:

- An increase in data available to investors;
- A shift from negative to positive screening; and
- The proliferation of investment options across asset classes and international borders

Impact investing in the US actually represents around one-fifth of all investments under professional management. While a variety of stakeholders have begun to call on nonprofit institutions to direct endowment assets toward investments that offer competitive returns and benefit society (and move away from investments that undermine the institutional mission) investors need to be comfortable that impact investing is consistent with their fiduciary responsibilities.

Fiduciary investment responsibilities for endowment investors broadly is defined under two primary acts: the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the Uniform Prudent Investor Act (UPIA). UPMIFA applies to nonprofits structured as corporations, while the UPIA applies to nonprofits established under a trust agreement. UPMIFA provides that in managing investments, fiduciaries must act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. Other considerations include:

- The charitable purpose of the institution
- General economic conditions
- Effects of inflation and deflation
- Tax consequences
- The role of each investment in the portfolio
- Expected total return from income and appreciation The charity's other resources
- The asset's special relationship or value to the institutions charitable purpose
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Challenges and Opportunities

Endowment fiduciaries should be attentive to the continuous evolution of the impact investing landscape. There is a growing body of research that suggests it is possible to pursue sustainable and mission aligned investment without sacrificing performance. This evolution will present both challenges and opportunities in making investment decisions: opportunities in constructing portfolios that are impact-aligned while meeting the overall mission of the organization and challenges in balancing the institution's financial needs.

Best practices and investment policies should reflect on the institution's mission, goal and objectives. These can be integrated into an Investment and Impact Policy Statement, RFP's, proxy voting, and portfolio management engagement with firms that have sustainable and mission aligned expertise. Investment committee members should become knowledgeable of sustainable long-term investment practices.

Fiduciary principles and investment opportunities provide a pathway for endowment trustees and managers to better align an institution's goals and mission and its investment portfolio.

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