Cabinet Office

Working paper: How foundations are using Total Impact approaches to achieve their charitable missions

December 2014

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Foreword

Charitable foundations throughout the world are constantly developing the ways in which they can best achieve their charitable missions. This paper explores one such development – the Total Impact approach to achieving social mission.

Put simply, a Total Impact approach is when a charitable foundation looks at all the different ways they can achieve impact, and focuses resources on areas that have the maximum impact.

This could mean moving resources within a grant portfolio, from one area to another. It could mean redirecting resources within a supply chain, towards organisations that better align with the foundation's mission. In some instances it could mean moving resources from purely commercial investments to investments that also achieve social impact.

The crucial step behind each of these is a clear articulation of mission, an effort to measure impact across all activities, and a commitment to moving resources to where they will have the biggest impact. A Total Impact approach starts with the question "how do we achieve the greatest impact with each pound?"

Of course, many foundations have always made these types of calculations. The nature of this paper is to identify latest practice in this field, and make explicit what are often implicit decisions. It has been based on interviews with a wide range of foundations in the UK and beyond.

We hope the paper is of interest to the staff and trustees of foundations and to professionals connected to foundations, such as investment managers and consultants. It could also hold interest to other managers of money, such as institutional investors, pension fund managers, individual investors and practitioners in the social investment field.

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Introduction

A Total Impact approach entails a foundation considering the impact achieved by all of its activities, including investment.

Foundations are at the forefront of driving positive social change and improving the environment.[1] In the UK alone foundations give away over £2.4bn annually to charitable causes, making up 5% of the total funding received by the voluntary and charity sector.[2]

To fund such large scale charitable giving, foundations have traditionally deployed their capital through two complementary routes. Many invest their endowments in mainstream markets, aiming to generate as much financial return as possible. They then use the income generated from this investment activity to provide grants, aiming to achieve a public benefit. This “investment-grant” approach is one that has been employed successfully for a considerable period of time.

Many foundations, however, are building on this approach to further their charitable objects. They want to ensure that they are being as progressive as they can be, and recognise that social impact can be generated from investments themselves, as well as from grant programmes. Some are meeting their charitable mission through investing directly in charities, or through using social enterprises in their supply chains. Others are reviewing the negative impact that investments can have on social mission, and whether this is reducing the positive impact of grant programmes.

[1] The Association of Charitable Foundations defines a ‘charitable foundation’ or ‘trust’ as *“charities with an independent board, independent and sustainable funding, often an endowment, and whose main activity is to (support) other charities, causes or individuals”*. This Working Paper refers to ‘foundations’ as a catch-all term for such organisations.

[2] Association of Charitable Foundations (2014) “*Giving Trends Top 300 Foundations 2014 Report: Key Facts and Figures on Giving, Income and Assets in the Top 300 UK Charitable Foundations*”.

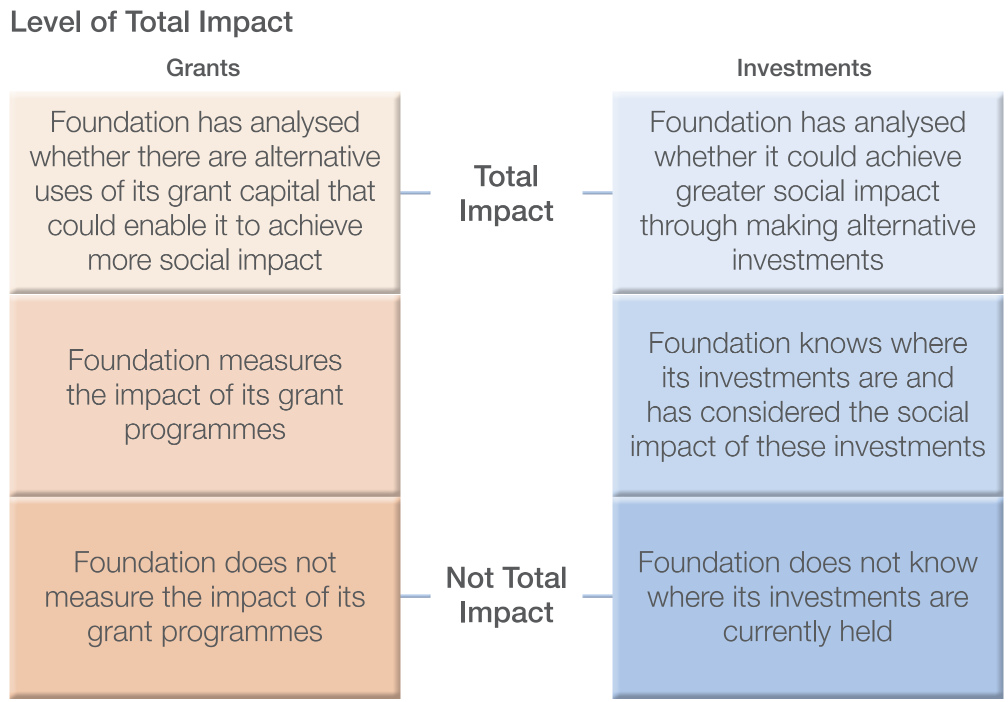
A Total Impact approach is when a foundation considers the social impact of all of its resources and assets before settling on the strategy that will enable it to best meet its charitable objects. It is, at core, about transparency of impact. It requires foundations to articulate what impact they would like to see in the world, to measure how effectively their assets are achieving that impact, and to redirect resources to whatever areas will maximise impact. This can draw on emerging impact measurement tools, including:

- work to standardise measures used to track particular social outcomes;
- the growing landscape of social investment platforms and products, which track the social, as well as financial, performance of investments, and provide a way for foundations to invest in the social sector;
- the growing transparency around commercial organisations' impact on the wider community; and
- new directories of socially minded suppliers of goods and services, which allow foundations to consider ways to achieve more social impact through their supply chains.

We have found that foundations developing this approach typically see it as a process rather than an absolute standard. In practice it can be extremely complex to measure the social impact of all grants and investments. However, foundations highlight that making these decisions explicit, and building systems to ask consistent questions on impact, are useful tools in driving up performance.

This Working Paper is based on in-depth research with organisations pursuing a Total Impact approach. The contributors are mostly based in the UK, but we also asked FB Heron Foundation for its view, as it is one of the pioneering US foundations in this area. The UK-based foundations approached are all members of the Social Impact Investing Group which comprises trusts and foundations either engaged in, or interested in engaging with, the social investment market. More detail about these organisations can be found **here**. The Cabinet Office is extremely grateful for their contributions.

Figure 1: Different levels of impact transparency



This paper brings together insights from foundations using Total Impact approaches to pursue their charitable objects, and those that are interested in doing so.

- **Section one** sets out **what** it means to take a Total Impact approach. It includes four case studies to illustrate how the approach is being implemented in reality.
- **Section two** explores reasons **why** foundations are adopting Total Impact approaches.
- **Section three** examines the challenges that Total Impact foundations encounter and **how** foundations are going about addressing them.

Section 1: What are Total Impact approaches?

An increasing number of foundations around the world are now pursuing Total Impact strategies to achieve social impact.

In its broadest sense, a Total Impact approach is when a foundation considers the social impact of all its activity, including its investments and supply chains. A Total Impact strategy is when a foundation uses this information to help it to plan the allocation of its resources to maximise social impact as far as possible.

Engaging in the growing social investment market is one option in a Total Impact approach. The social investment market contains investment products explicitly focused on directing money towards social sector organisations. These look at both the potential social impact of an investment as well as its financial performance.

The social investment market is growing, making it easier for foundations to track the social impact of their investments. Social investment products actively assess and report on the social impact performance of their investees, as well as on their financial performance. This includes social investment funds run by specialist fund managers; charity bonds issued by charities; social impact bonds supporting social ventures to deliver public services; ethical savings products provided by social banks; and share options and lending products specifically aimed at monitoring sustainable social impact. Alongside these, platforms and exchanges now exist through which investors can compare and track social impact and financial returns. For example Microgenius, Abundance, Ethex and the Social Stock Exchange offer a range of retail/individual social investment opportunities.

Social investment is not, however, the only way foundations can support their beneficiaries beyond grants. Foundations can also use their supply chains to achieve social impact, for example, through employing social enterprises to provide their catering, or taking on staff from disadvantaged backgrounds. A pure Total Impact foundation will consider its social impact from absolutely every angle.

A Spectrum of Capital – Social Impact Taskforce: Allocating for Impact

Socially conscious investments arguably date back centuries, with religions laying down directives on how to invest according to ethical values. More recently, the social climate of the 1960s, followed by the push from investors to eliminate the institutionalised racial discrimination of Apartheid in South Africa, brought socially conscious investments to the fore.

By the 1980s, Socially Responsible Investment (SRI) had a dedicated investor base, focused on systematically 'screening out' harmful products and practices (such as tobacco, weapons or oppressive regimes). Back then, this investment style was driven primarily by ethical motivations, rather than commercial considerations.

Over time, in addition to ethical motivations, many investors have recognised that, by factoring social, environmental and governance (ESG) risks into their investment decisions, they are able to protect value and deliver greater long-term financial returns to shareholders and deliver greater long-term financial returns to shareholders, particularly in a world of increasing transparency. As a result, the broad category of responsible investors today ranges from those which 'negatively screen' harmful products or practices, to those which also address ESG risks through active ownership. The extent to which ESG factors are central to decision-making varies widely within this universe of investors.

Taking this further, and building upon "best-in-class" SRI, some investors now deeply integrate social and environmental factors into their analysis and pro-actively screen for ESG opportunities, favouring approaches which they believe will outperform the market because they operate (or have the potential to operate) in a more sustainable way than their peers over time – be it through their environmental management, stakeholder engagement or governance practices. This sustainable investing style centres on backing businesses whose ESG practices enable them to flourish in a changing social and environmental landscape, and we distinguish it from responsible investment because it focuses not just on protecting value against risk but also on create additional value, for both shareholders and society.

While sustainable investors focus on progressive ESG practices, social investors go beyond this to focus on solutions to pressing social or environmental issues. Social investments focus deliberately on one or a cluster of issue areas with the intention to make a positive and measurable societal impact, alongside a financial return. For example, an investment might focus on delivering life-saving healthcare to low-income communities, or address water scarcity, or provide high quality jobs to the long-term unemployed

Source: Social Impact Investment Taskforce (2014) "*Allocating for Impact: Subject Paper of the Asset Allocation Working Group*".

What all foundations taking a Total Impact approach have in common is that they have considered the social impact of their investments, as well as the financial returns, and looked at this alongside their grant-making activity to maximise their impact.

However, Total Impact can take many forms. For example KL Felicitas Foundation is aiming to invest its entire endowment into the social investment market, based on an overall view of where it will achieve greatest impact. A foundation that invests in 'mainstream' corporations (as opposed to social enterprises and charities) and grants away its money to social sector organisations, is also pursuing a Total Impact approach, provided it has first assessed the social impact of all of its activity.

With the help of the organisations which supported this research, we have developed a spectrum that demonstrates the range of different approaches that would qualify as "Total Impact," and shows how different foundations are interpreting the concept.

At one end of the Total Impact spectrum are foundations whose investments are solely made into non-social sector organisations through mainstream investment products. There could be a number of reasons why a foundation might make this decision: it might conclude that its beneficiaries will only ever be capable of taking on grant, it could be unconvinced by the pipeline of explicit social impact investment opportunities, or feel there is a lack of hard data to justify alternative activities[3]. Whilst the foundation does not make social investments, this does not mean it will not apply screens to its investments (or include social enterprises in its supply chain). Crucially, the foundation has considered the social impact of its existing investment portfolio and grant activity before settling on this strategy.

[3] Sarasin & Partners (2012) "*Compendium of Investments: 16th Edition*".

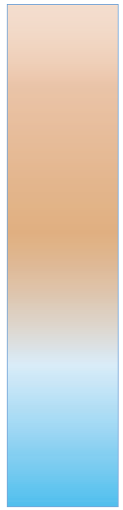
Figure 3: The Total Impact spectrum

Characteristics

Social impact considered across all activity in a transprent way	Mainstream investments	Screened investments	Social investments	Grants	Social enterprises in supply chain	Examples of closest adherents:
YES	100%	Potentially	0%	YES	Potentially	Wolfson
YES	>50%	Potentially	<50%	YES	Potentially	Barrow Cadbury City Bridge St John's Hospital
YES	<50%	Potentially	>50%	Probably	Potentially	Panaphur
YES	0%	YES	100%	Potentially – if to support investments	Potentially	(Target): F.B. Heron KL Felicitas

Make-up of endowment

Mainstream investments



Social Impact Investments

At the other end of the spectrum are foundations that have rejected the "investment-grant" approach and are investing their endowment only in organisations achieving social impact directly in line with their mission. At present, there are no foundations investing their entire endowment in this way, but there are some which are aiming to.

Between these two ends are foundations that continue to invest in organisations that are not directly in line with their mission, but are also making some social investments.

They have decided how to apportion their assets after considering the social impact they are achieving against the alternatives. Some (like Panaphur Charitable Trust) have greater confidence in the capacity for social investments to achieve their charitable objectives than others. This is simply a judgement that differs for each foundation. As with all Total Impact foundations, these foundations may apply screens to their mainstream investments or take ethical considerations into account when making supply chain decisions.

Although early days, an increasing number of foundations are exploring Total Impact strategies. Four case studies overleaf demonstrate different approaches to implementing the strategy.

The Wolfson Foundation

Background

The Wolfson Foundation is an independent charity that awards grants to support and promote excellence in the fields of science and medicine, health and disability, education and the arts and humanities. It has awarded over £750M in grants since its establishment (in excess of £1.2Bn in real terms), supporting nearly 10,000 projects. It also undertakes other activities (e.g. policy research, partnership working and lobbying) in conjunction with its grant-making.

Having analysed the possibility of incorporating social investment in its impact strategy, the Wolfson Foundation decided to continue pursuing an "investment-grant" model for delivering its social impact. It is keeping the situation and, in particular social investment opportunities, under constant review. The subject is considered by the Board, expert grant panels and the Investment Committee.

Motivation for following a Total Impact strategy

The Wolfson Foundation has decided not to make social investments because of the perceived risks around the type of social investments in which it would be engaged, and the resource and expertise requirements it believes are necessary to make effective social investments.

Conversations with its grantees have also highlighted that, right now, the Foundation's philanthropic role in providing infrastructure funding is more important than ever. The Foundation's assessment is that its charitable objects are best served, within a Total Impact strategy, by currently focussing on an "investment-grant" model.

The Wolfson Foundation continues to monitor the social investment market and would consider changing its impact strategy if this was deemed appropriate in the future. It also continues to evaluate the impact and efficacy of its grant funding and to compare this to other potential models of funding/investment.

Early results

The Foundation's investments continue to perform well, meeting the set return of RPI + 4% annually. This allows the Foundation to allocate over £30M in grant funding each year.

Total Impact strategy

Endowment

Endowment invested across a diverse range of investments (carefully considering ethical exclusions).

Charitable activity

Returns from investment portfolio used to provide grants to organisations working in:

- Science and Medicine
- Arts and Humanities
- Education
- Health and disability

The Foundation also awards Wolfson History Prizes on an annual basis to promote and encourage standards of excellence in the writing of history for the general public.

The Barrow Cadbury Trust

Background

The Barrow Cadbury Trust (BCT) is an independent foundation, committed to bringing about socially just change. It provides grants to grassroots community groups and campaigns working in deprived communities in the UK, with a focus on Birmingham and the Black Country. It also works with researchers, think tanks and government, often in partnership with other grant-makers, seeking to overcome the structural barriers to a more just and equal society.

To complement its grant making activity, BCT has decided to carve out a portion of its endowment for making social investments. It makes investments in products which will support the development of the social investment market both directly and indirectly. This includes:

- Innovative investments which might catalyse interest from a wider range of investors (such as social impact bonds); and
- Investments to directly develop the social investment marketplace, as the absence of a secondary marketplace and the lack of transparency is an inhibiting factor for investee organisations.

As well as investing in products to develop the social investment market, BCT is looking to further the strategic aims of the charity to promote justice in line with the enduring interests of the Trust (Criminal Justice, Gender Justice, Racial Justice and Economic Justice) so each potential investment is looked at both in terms of these themes and market development.

Motivation for following a Total Impact strategy

BCT believes it should use all its resources (human, investments, finances, reputation etc) to achieve its mission, not just the income from its investments. The finance and investment team works closely with the programme team to ensure an integrated approach.

BCT realises that social investment can often be a more effective approach than just giving grants. Given its limited resources to act as a catalyst in the development of the social investment market, BCT invests in a range of products to bring in new investors and to develop understanding of the market.

Early results

The social investment portfolio is still relatively new, with the majority of investments having been made within the last three years, so it is quite early to pronounce on the success or otherwise of this approach. However early indications are that the investments are achieving social impact as well as financial returns.

Within the main financial investment portfolio, active engagement with investee companies is a growing area and one which BCT will continue to develop.

Total Impact strategy

Endowment

Majority of endowment invested in mainstream markets, avoiding companies whose activities conflict with the aims of BCT.

BCT is a member of the Charity Responsible Investment Network, facilitated by ShareAction, which engages with investee companies on specific issues in order to get them to adapt their approach.

Social investment carve out from endowment

Charitable activity

Returns from investment portfolio used to provide grants to organisations working to:

- promote criminal justice
- promote an immigration system that is fair to both migrants and established residents; and
- support effective approaches to reducing economic and social injustice and assist in building resilient communities

Social investment carve out

Investments from social investment carve out to date:

Peterborough social impact bond – £100K equity investment to reduce reoffending rates.

Social Justice and Human Rights Centre Ltd – £700K investment (£350K equity and £350K loan) to buy and refurbish property to be used as office space and hub for social justice organisations.

Ethex – £50K investment into Ethex; a new trading platform for social investments.

Bristol Together (BT) – £200K loan to provide work and training opportunities for ex-offenders.

Big Issue Invest Social Enterprise Fund – £250K investment in Social Enterprise Investment Fund.

Essex Looked After Children Social Impact Bond – £200K investment (mixture of equity and loan) to fund payment by result project working with families of young people at risk of being taken into care.

Energise Innovation Ltd – £144K investment in social impact bond to improve school attendance and performance.

T&T Innovation Ltd – £56K investment in social impact bond to improve school attendance and performance.

Golden Lane Housing – £250K investment in 4% 5 year bond.

Midlands Together – £205K investment in a 5 year bond.

Social Venture Fund II – £250K investment in the Germany-based social organisation fund.

City Bridge Trust

Background

Bridge House Estates is the City of London's permanently endowed charity dating back to the 13th century. The founding purpose of the charity is to maintain and repair those bridges across the Thames which are the responsibility of the City of London. Today the City Bridge Trust maintains Blackfriars, Southwark, London, Tower and the Millennium Bridges. The City of London Corporation is the sole trustee of the Bridge House Estates.

City Bridge Trust, which is the working name for the grant-making arm of Bridge House Estates, distributes funds surplus to bridge requirements to make grants for charitable activity. Annual grant-making is approximately £15M each year. In keeping with City Bridge Trust's original purpose, grants are made to activities that benefit the inhabitants of Greater London.

In February 2012 the City of London Corporation allocated £20M from the Bridge House Estates endowment for investments in activities that produce both social and financial returns (the City of London Corporation Social Investment Fund). More recently, the City Bridge Trust launched a grant programme which helps London-focused charitable organisations that seek to explore social investment.

Motivation for following a Total Impact strategy

City of London Corporation and City Bridge Trust have a long-standing commitment to the development of the social investment market. By setting aside £20M of the charity's endowment for social investment, the City of London wanted to demonstrate its support of social investment financing. The use of endowment funds for social impact complements the Trust's use of income to support charitable activity across London (although the social investment fund is not geographically restricted in the same way as the Trust's grants programme). Recognising the barriers to market access, City Bridge Trust has launched a programme to help charitable organisations make the step from grant funding to repayable finance.

Early results

The City of London Corporation Social Investment Fund has been in operation for two years, and during this time just over £6M of investment commitments have been made. Social and financial return is examined on a per investment basis, but the Trust is keen to assess the performance across the whole portfolio as far as possible.

Total Impact strategy

Endowment

Endowment invested in mainstream markets

Social investment carve out from endowment

Charitable activity

Investment return from endowment used for maintenance and repair of City of London Corporation's bridges.

Excess surplus used for grant making

Around **£15M** of grant funding awarded annually to organisations working to benefit London's communities according to the Trust's programme priorities.

Social investment carve out

£20M City of London Corporation Social Investment Fund: loans, quasi-equity and equity to organisations working towards charitable ends and to help develop the social investment market.

Investments from social investment carve out to date:

Oxfam Small Enterprise Impact Investment Fund – £319K invested to finance SME activity in sub-Saharan Africa, East Asia, the Pacific, Central America and the Caribbean, with a particular focus on organisations promoting women's empowerment and food security.

Real Lettings Property Fund – £500K invested to locate and purchase 'move on' accommodation benefiting tenants who are, or have previously been, homeless.

Golden Lane Housing – £500K invested in a five year fixed rate bond, with funds used to purchase, adapt and let accommodation to adults with learning disabilities.

Midlands Together – £300K invested in a five year fixed rate bond, with funds used to provide employment, training and mentoring to ex-offenders through a property refurbishment programme.

Greenwich Leisure – £500K invested in a five year fixed rate bond, with funds used to deliver social projects across London.

Framework Housing – £500K invested to enable Framework to build or adapt accommodation for homeless and vulnerable people in the East Midlands.

Commonweal-Praxis Housing Project – £500K invested to enable Commonweal and Praxis to deliver support services to migrants with no recourse to public funds.

The FB Heron Foundation

Background

FB Heron is a $300M foundation based in New York with a mission to help lower income Americans to help themselves escape poverty and thrive.

Over the past 20 years it has moved away from the traditional US model of investing its assets conventionally to maximise financial return and granting 5% taken from the return on those assets (by US law) for philanthropic purposes, to what Heron defines as a "100% mission" approach.

Through the 100% mission approach, Heron is aiming for all of its assets to be used in line with its social mission. It has found and invested in high-performing for-profit, nonprofit/charitable, cooperative, governmental and hybrid organisations that deliver the combination of financial and social impact that Heron seeks.

Heron believes that progress against poverty is made through economic integration, where low-income people join the larger economy and that it works for them as well as others, creating opportunity for mobility, not isolating people within their income bracket. Therefore it does not worry about making every dollar go strictly to helping a low-income person or creating a low-wage job; rather it looks for investment opportunities benefiting low- and moderate-income people.

Motivation for following a Total Impact strategy

Following its 100% mission approach gives Heron the freedom to use a variety of financial tools to create the most impact – through a mix of grants to non-profits, investments in a variety of asset classes and direct investments into mission-serving enterprises. As Heron understands that increasing employment creates social impact by addressing root causes of poverty, it believes there is a wide universe of impactful investment opportunities.

Early results

Between 2000 and 2013, Heron grew its mission portfolio from about 6% to over 40% of the entire endowment. The foundation moved to 60% in 2014 and is expected to move to 100% in the next few years.

Heron is in the process of developing a framework where financial performance is measured alongside social performance for all of its investments. Heron also plans to continue to evaluate and optimise the portfolio for social and financial performance over time. Thus far the portfolio's financial return has performance as expected.

Total Impact strategy

Endowment

Aim for endowment to make grants and investments only to organisations achieving social returns in line with FB Heron's mission

Charitable activity

Heron looks for opportunities that help to drive:

- Job Growth: because unemployment and low-quality employment are root causes of poverty;
- Systemic change in the current economic system via economic integration and innovation: because U.S. poverty and unemployment are structural and require innovative and systemic solutions; and
- Full Accountability: because solving these problems requires credible, standardised and transparent metrics which can then be shared broadly for greater sector learning.

It seeks out enterprises where there is a positive correlation between business success and these mission outcomes. That is, business success will drive mission success and vice versa.

Heron is fundamentals-driven, believing that superior mission and financial performance come from an enterprise's fundamentals, such as management excellence, market opportunity, and rigorous accountability. This allows it to expect reasonable rates of return for all its mission-related investments—including its grants, for which the financial return stays with the organisation in the form of improved net revenue over time.

This is made possible by its choice as a grant maker to provide capital grants rather than revenue, structured in ways that strengthen the business underpinnings and support the long-term health of high-impact enterprises.

Section 2: Why are foundations using Total Impact approaches?

An increasing number of foundations are starting to move from traditional investment-grant models. This is allowing them to deliver impact with even greater transparency.

By following a Total Impact strategy, a foundation can be even more confident it is serving its beneficiaries as fully as possible. This is because analysing the social impact of existing activity can highlight areas of previously undervalued positive impact. It can also enable a foundation to uncover activity where it is not getting value for money (or even identify where its activity is detracting from the social impact being created elsewhere).

Even the process of thinking about alternative mechanisms for generating social impact can help a foundation maximise its impact. Exploring alternative impact options means a foundation might find new ways of achieving its mission. Alternatively, it can reaffirm a foundation's belief that its existing strategy is the right one.

Based on the conversations we have had with foundations following Total Impact strategies, the Total Impact approach is also a means of strengthening the charitable sector as a whole and driving reform in the financial and business sectors.

Benefits of evaluating existing activity

Evaluating the impact of existing grant programmes can help a foundation determine whether its money is being used most effectively. It might lead to some surprising results – some grantees may deliver more social impact than previously assumed, whereas others may generate less. Where grantees are delivering less social impact than they are potentially capable of, the process of measuring their impact can help the foundation and the grantee find areas within the organisation that may need some attention.

Similar logic can also be applied to a foundation's existing investment portfolio. Evaluating the social impact of the investments a foundation holds may mean a foundation discovers investments which are adding social impact they were previously unaware of. It can also enable a foundation to identify investments that directly detract from the social impact created by the foundation's other activity. For example, if a foundation with a mission to improve public health finds it has invested in a tobacco company or a fast food chain.

Identifying the various components of a foundation's supply chain (considering where it buys its goods and services) and establishing the social impact can also enable a foundation to discover previously unidentified areas where its charitable mission could be enhanced. Areas where gains in social impact can be generated might be very simple – for example, a foundation could look at who provides its office supplies or caters for any events it holds. Accumulating the small gains could add substantially to a foundation's Total Impact.

Benefits of exploring alternative ways to generate social impact

Exploring new mechanisms for generating social impact can help a foundation decide whether it is supporting its beneficiaries as fully as possible. Social sector organisations operate different models for achieving impact. Some require, and will always require, grant funding, but organisations that have trading models can benefit from taking on investment capital as it can help them to scale up their services, develop new projects and smooth out uneven cashflow.[4]

The flexibility afforded through the Total Impact approach can be especially useful to foundations responding to the needs of a small group of organisations, such as those with a very local remit. It can also be useful to foundations in deciding on the best relationship to form with a beneficiary. Sometimes forming an investee – rather than grantee relationship – with a social sector organisation can help a foundation improve the accountability of its funding. For example, some foundations report that monitoring the performance of grants can be difficult. In certain circumstances, this process can be made easier when there is an obligation on an organisation to repay an investment, as both the investor and investee regularly look to monitor and improve the level of social impact achieved with the funding.

The Total Impact approach can also enable a foundation to explore new channels through which to achieve its charitable objects, both from the investments it makes, and through

[4] New Philanthropy Capital (2011) "*Best to borrow? A charity guide to social investment*".

its supply chain. In terms of its investments, when a foundation makes a mainstream investment (looking solely at financial gains), it has to do so with the aim of maximising financial return for a given level of risk. This may exclude a number of organisations whose financial returns are lower, but whose social mission aligns with that of the foundation. One example could be a foundation targeting poverty reduction, which could invest in a supermarket chain that predominantly employs people on the margins of the labour market. If this was a purely "financial" investment, the foundation might not make it. Making social investments, where a foundation can blend financial return alongside social impact, can therefore unlock new areas for impact.

Foundations can also improve their social impact through their supply chains. One example might be where a foundation whose charitable object is to promote criminal justice moves its office location. This foundation could help its beneficiaries by employing a removal firm that employs former prisoners, as opposed to a potentially cheaper alternative.

Likewise, the Total Impact approach can help a foundation to identity ways in which it can recycle its own capital. Given the scarcity of resources available to foundations, some foundations want to re-use their resources where it is possible. In some instances, such as when foundations co-mingle their money with other investors, they can also leverage money from other investors into the charitable sector that otherwise would not be invested into it.[5]

Finally, many of the Total Impact foundations included in our research are also aiming to fundamentally affect change within the finance and business sectors. These foundations would like more investment professionals and board members to consider the social and environmental impact of the investment decisions they make. They have found that adopting a Total Impact strategy has been a very effective way for them to support this agenda.[6]

[5] Cabinet Office (2013) "*Achieving Social Impact at Scale, case studies of seven pioneering co-mingling social investment funds*".

[6] For further detail see Share Action (2014) "*Your Money, Your Mission: Creating a Responsible Investment policy for your Charitable Trust*".

Section 3: How are foundations implementing Total Impact strategies?

There are both real and perceived challenges to implementing a Total Impact approach. However, most foundations have the skills and support networks to overcome these barriers.

The previous section explored some of the reasons why following a Total Impact approach can help a foundation better achieve its charitable objects. Interestingly the foundations in our research that have implemented a Total Impact strategy do not necessarily recognise any significant barriers to this approach. They report that they have had to make no significant change to the way they run their organisations to alter their approach.

Nevertheless, prospective Total Impact foundations do face some challenges – both real and perceived. This section sets out some of those challenges together with some suggestions on how these can be overcome.

What is needed to determine which Total Impact strategy to follow?

To plan a Total Impact strategy, foundations would typically need to:

- **Define** their charitable mission and the measurable indicators that reflect progress towards this mission.
- **Consider the market** of charitable sector organisations delivering goods and services that directly support this mission, and what kind of support and/or finance that they need to grow that impact.
- **Consider the social investment products** available that could contribute both direct (and measurable) social impact towards this mission and indirectly by generating further funding for allocation. Consider alongside grant funding that could directly support the social mission and its likely impact.
- **Consider investment**, contracts and any other activities that are likely to indirectly contribute some positive impact towards the social mission and estimate this impact.
- **Consider whether** any mainstream investments/other activity might have a negative impact on a foundation's mission.

Our research tells us that the following are some challenges associated with achieving these steps:

1. **Lack of capacity (and capability)**: most foundations are run by a small number of staff delivering a grant programme on a full-time basis. Many do not believe they have the capacity to use additional impact tools because they would struggle to carry out rigorous impact analysis and explore alternative impact mechanisms, as well as administer a grant programme.

2. **Lack of support**: it is perceived that there is limited guidance about the steps required to formulate and implement a Total Impact approach. For example foundations say they feel unsure about how to monitor the social impact in their investments with the same rigour as financial performance measurement.

3. Specifically in relation to making social investments: there is a perceived **lack of clarity around regulation** and ongoing concerns over whether social investments are consistent with fiduciary duty. Foundations are therefore unconvinced that they could create more social impact through a Total Impact approach, and unsure of the potential legal ramifications of using one within their strategy.

1. Lack of capacity

There is a perception that moving to a Total Impact strategy requires recruiting staff with specialist skills and knowledge or employing expensive consultants. Given the understandable inclination for foundations to spend their scarce resources on their beneficiaries, rather than investing in themselves, this rarely represents a viable option.

Whilst implementing a Total Impact strategy requires an appropriate blend of skills, the foundations we spoke to suggest these often already exist within foundations. For example, combining investment and grant teams can be just as effective at generating the right skills mix as bringing in new resource. Grant teams who have experience of working with

"Traditionally, foundations have a grant team and an investment team, often with little overlap. One of the most effective ways that we have found to drive our entire endowment in the direction of mission is tearing down this wall and creating one single team, who look for social impact in all transactions: grants, loans, private equity investments, shares and beyond".

FB Heron

"The Chief Grants Officer is responsible for servicing the City of London Corporation Social Investment Fund's board. Much of the day-to-day work is delivered by one of the Trust's Principal Grants Officers and Grants Assistants. Legal, financial, and policy advice is drawn from within the Corporation as required".

City Bridge Trust

social sector organisations are often well positioned to also understand the investment needs of their beneficiaries. The experience of foundations like FB Heron and City Bridge Trust appear to reinforce the finding that implementing a Total Impact strategy does not necessarily require wholesale change. Grant teams are also likely to have an understanding of which social sector organisations could be brought into a supply chain.

2. Lack of support

The most useful resource available to foundations interested in a Total Impact approach is their peers, many of whom are developing significant expertise in this area.

As set out above, a commitment to measuring impact is a pre-requisite to following a Total Impact approach. However, many foundations tell us that they are unsure of how to measure the impact of their existing charitable activity, and would certainly struggle to make a robust judgement on whether following an alternative approach to the "investment-grant" model would allow them to achieve more impact.

There is a wealth of knowledge from grant-giving institutions to support effective investment and pipeline management. There are also support membership bodies such as the Association of Charitable Foundations, Charity Finance Group and the Charity Investment Group.

There are also a number of freely available frameworks and approaches to support the social sector to improve its impact practice.[6] These include shared measurement approaches such as the Impact Reporting and Investment Standards ("IRIS") being developed to help funders build common indicators to capture the social performance

[6] See Social Impact Investment Taskforce (2014) "*Measuring Impact: Subject Paper of the Impact Measurement*" and Clifford J, Markey K and Malpani N (2013) "*Measuring Social Impact in Social Enterprise: The state of thought and practice in the UK*".

> "The City of London has allocated £20M from the City Bridge Trust endowment to invest in organisations meeting agreed social and financial criteria. Each investee reports on social as well as financial metrics on a quarterly basis. Because the range of social investments made is so varied in geography, theme and sector, a range of impact measurement methodologies are used. Each investment is taken on a case by case basis, questioning the outcomes which are expected to be generated by the use of the finance requested and understanding the impact that this will cause to the individuals who purchase or receive these goods/services. There is also room to consider indirect impact to those individuals, groups and communities closest to the beneficiaries, and even to consider how organisations are affected by taking on social investment. The BSC Outcomes Framework Matrix is a useful way of categorising likely outcomes."
>
> **City of London Corporation's Charity, City Bridge Trust**

of an organisation and initiatives such as the GECES sub-group on Social Impact Measurement and the Social Impact Investment Taskforce working group on impact measurement are coordinating this work at an international level.

In addition, frameworks such as Big Society Capital's 'Outcomes Matrix' and Inspiring Impact's 'Funders' Principles' have been developed to help funders shape a coordinated and consistent approach to impact measurement. Such resources can help funders, regardless of mission or resource, to establish a framework upon which a more bespoke approach to impact practice can be built.

Implementing an impact measurement approach does not necessarily require highly sophisticated and costly social impact measurement methodologies. Ultimately, a foundation that makes a commitment to measuring its social impact needs to think about what "feels right" for it, and is possible from a practical point of view. These tools and resources are supporting funders that are seeking to consider, develop and improve their own impact practice.

3. Lack of clarity around regulation of social investments

Some foundation staff and trustees report that they do not always feel comfortable with making investments that seek to make a social impact if this means not maximising their financial return.[7]

Undoubtedly, there is more that needs to be done to educate the organisations that provide advice to foundations. Many investment advisors and lawyers continue to believe foundations are obligated to follow a conventional investment-grant strategy and are unable, or unwilling, to change this advice.

[7] Social Impact Investment Taskforce (2014) "*Impact Investment: the Invisible Heart of Markets Harnessing the power of entrepreneurship, innovation and capital for public good*".

Guidance has now been published, however, which explains that a foundation is not obligated to maximise the financial return from its investments. The first key source of guidance in this area was published in 2011 by the Charity Commission: 'Charities and Investment Matters: A guide for trustees' (widely known as CC14). This guidance helped reduce any uncertainty about charities' abilities to make social investments. For the first time the guidance made it clear that pursuing a combined outcome of a financial return and a mission-related social return can be a legitimate investment strategy for charities.

Since then, the Government has asked the Law Commission to review the law on social investments by charities. In April 2014 the Law Commission published a paper stating that many charities already make these investments without any difficulty, but that some complexities in existing law may act as a deterrent for some.[8] The Law Commission consulted on ways the law could be improved, and in September 2014 published a recommendation for the introduction of a clarifying power for charities to make social investments. The Commission also noted that "under the current law, charity trustees are not under a duty to seek the best financial return from social investments, but may consider the overall return, comprising both the financial return and the furtherance of the charity's purposes (which we call "mission benefit").[9] At the time of publication the Government is considering its response to the recommendation.

It is hoped that this guidance will help foundations feel confident to move beyond the conventional "investment-grant" model if they feel it is within the best interests of their beneficiaries. Investment and legal professionals providing advice to trusts and foundations should be making themselves familiar with the new guidance available.

[8] Law Commission (2014) "*Consultation Paper: Social investment by Charities*".

[9] Law Commission (2014) "*Recommendations: Social investment by Charities*".

Assessing different impact mechanisms

Making an assessment on whether one mechanism for achieving social impact will be more effective than another is undoubtedly challenging. There will be a certain level of risk associated with any decision like this.

In response to this challenge, Cabinet Office has been working on an assessment tool, available **here**. The tool is not intended for practical use in making investment decisions, but is designed to help foundations work out what information they need in order to answer the following question:

- What mix of investment, grants and other capital deployment will generate the highest total social impact?

Our hope is that the tool will be of use in framing the conversations foundations have with their investment managers and advisors. With millennials due to inherit between £20 and £25Bn from baby boomers over the next four decades, and this generation seeing improving society as being the number one business priority, investment advisors are starting to realise that considering social impact may need to become a core component of the service they offer their clients if they are to retain and build their client base in the future.[10]

[10] World Economic Forum (2014) "*Three reasons to be optimistic about impact investing" and "From Ideas to Practice, Pilots to Strategy II Practical Solutions and Actionable Insights on How to Do Impact Investing*".

Section 4: Where next?

This working paper captured new and developing approaches that foundations are taking to maximise their impact.

This paper set out some of the latest developments in using a Total Impact approach to achieving a charitable mission.

Although some of the terminology in the paper is new, many foundations have been following something similar to a Total Impact strategy for some time. These foundations have useful experience that they are willing to share with their peers, and are building the data sets needed to make robust decisions on the best ways to achieve social impact.

The concept of Total Impact is naturally being interpreted in many different ways, but Total Impact foundations are connected by a willingness to explore the social impact they achieve across all of their activity.

Where else is this useful?

Some of the thoughts set out in this paper may not just be useful for trusts and foundations. They are also possibly transferrable to corporations, housing associations, insurers, faith-based organisations, family offices, pension funds, and university endowments[11].

What next?

This is a Working Paper, and we would welcome any thoughts that people have about it to help develop the collective understanding on new approaches to achieving impact.

Please feel free to contact us at socialinvestmentandfinance@cabinetoffice.gov.uk if you have any comments or would like to discuss this paper with us further.

[11] City of London Corporation (2014), "*New Specialist Sources of Capital for the Social Investment Market*".

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This document is also available from our website
at http://www.gov.gov.uk/government/policies/growing-the-social-investment-market