Mission Driven Investing:

Leveraging Assets for Impact

Impact Investing Programme
Saïd Business School

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collaboration among

Partners *for* Change

W.K.
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Gayle Peterson
Associate Fellow, Saïd Business School

"With over $600 billion in the endowments of US private foundations, it is logical to consider how these funds can be put to use beyond generating income for grantmaking and begin to be a catalyst for social change via investments in market-driven entities."

— Philanthropy's New Passing Gear: Mission Related Investing[1]

Introduction

In 2013, impact investing[2] continues to be a hot topic in the social sector, something that both institutional funders and private investors are exploring in an effort to expand on the notion of doing good while doing well. In fact, in a survey of social investment/screening professionals[3] conducted in preparation for the annual SRI (Sustainable, Responsible, Impact) Conference, respondents identified impact investing as the key area of growth in the field, with investor acceptance expected to continue to grow this year.[4] This information is borne out by the latest J.P. Morgan *Perspectives on Progress* report (produced in collaboration with the Global Impact Investors Network, or GIIN) which stated that respondents to their survey hoped to commit US$9 billion this year, roughly US$1 billion more than last year.[5]

For the purposes of this case, the GIIN's definition of impact investing will be used with the understanding that different stakeholders and actors in the field apply varying definitions: "Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances."

In Europe, impact investing is increasingly viewed as an alternative to traditional asset management in the aftermath of the economic crisis. According to Saray Caygill, a member of the senior advisory board at Wermuth Asset Management based in Germany and investing across Eastern Europe, impact investing "seems to be the next big theme for family offices globally." The European Social Investment Forum (Eurosif) also released a survey last year indicating that investments in the field were increasing to reach an estimated US$11 billion[6] and that policymakers were exploring ways to strengthen this emerging sector.[7]

In the Global South, data on local impact investing is less readily available, though increasingly we are seeing stories about the new role of impact investing in Brazil, South Africa, Nigeria, China, Mexico, and other regions where business leaders are looking for new approaches to developing local economies.

While estimates about the potential growth of the sector (by 2020) vary, ranging from US$500 billion[8] to US$100 billion,[9] the consensus is that impact investing will grow significantly in the coming years. Nonetheless, the realm of impact investing remains a gray area for many, with uncertainties about the ability to find appropriate investments and little data upon which to base decisions and undertake outcomes analysis, especially to understand social return on investment (SROI).

Introduction

Five years ago, just as the term impact investing was gaining currency, the W.K. Kellogg Foundation (WKKF or the foundation) began the discussion about whether and how to launch an impact investing program.[10] A central focus of this discussion was how such a program would advance the foundation's goal of improving the lives of vulnerable children and families while at the same time preserving and growing financial resources for the future. With the field so new, how would WKKF create a program that aligned with its mission and produce both social and financial returns?

Up to its most recent reporting period, WKKF's impact investing program has committed almost US$78 million, maintains 24 active investments (not including "exited" investments), and has returned a 3.2 percent average for US investments since inception.

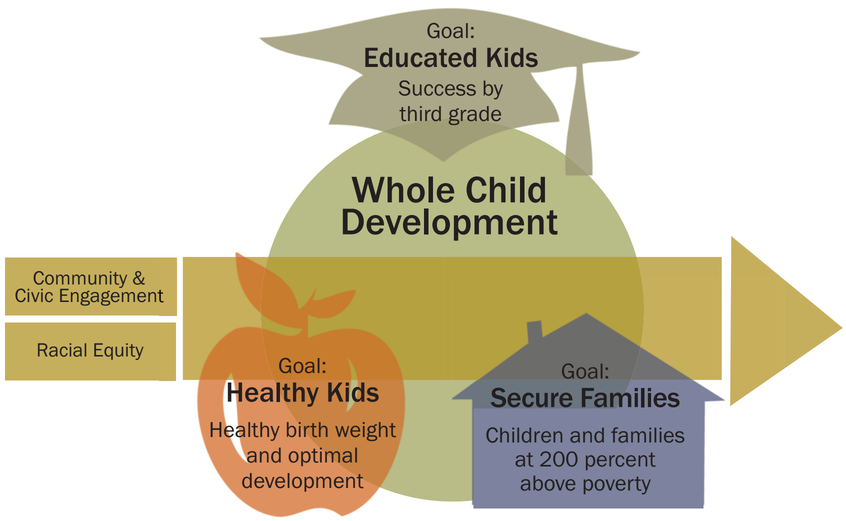
Investments in the overall portfolio have produced positive social metrics that improve the lives of children and families across the nation and in southern Africa, as well. Some highlights from the US include supporting 81,112 healthy school meals served on a daily basis and enabling US$54.7 million invested in healthy food access (see Table 2 for a complete list of recent outcomes).

This case study[11] explores the process WKKF undertook to get from idea to implementation on impact investing, and highlights some of the outcomes and lessons learned through this endeavor.

Organizational Overview

WKKF supports children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Through its grantmaking, staff pursues the objectives of supporting vulnerable children to become educated kids, healthy kids, and kids with economically secure families, while ensuring that racial equity and community and civic engagement are purposefully interwoven into programs and promoted through grants, investments, and advocacy. (See Figure 1.)

Figure 1. WKKF Goals and Overarching Themes to Improve the Lives of Vulnerable Children



Within this overall framework, the impact investing program serves to further advance and maximize the impact of the foundation's mission. Its intention is to go beyond traditional grantmaking efforts by using the additional resource of endowment dollars in enterprises that both realize market rates of return and improve the lives of vulnerable children across all foundation priority areas and themes.[12]

Organizational Stakeholders

This case examines the creation and evolution of the impact investing program at the W.K. Kellogg Foundation and, as such, includes insights and perspectives from a range of actors within the foundation and in its community of investment partners. The foundation is led by President and CEO Sterling Speirn, who has a background not only in philanthropy but in education, healthcare, entrepreneurship, and the law. Speirn and a diverse Board of Trustees guide the overall direction of the foundation. Impact investing at WKKF is led by Tony Berkley and a team that includes John Duong and Jayme Culp. A diverse group of program staff and advisors help advance the work, as will be detailed later in this report.

Introduction

In the United States, the wealthiest country in the world, nearly 43.6 million people live in poverty, which for a family of four means an annual income of less than $22,100 a year. The country's slow economic recovery and continuing high unemployment have resulted in record numbers of families struggling to put enough food on the table and pay for housing, health care and other basic needs.

American poverty disproportionately affects children, with more than 15 million now growing up in impoverished homes. Economists estimate that child poverty costs the nation about $500 billion a year. Other industrialized nations do much better. Among 24 developed nations, children in America, along with those in Greece and Italy, suffer the greatest inequalities in health, education and material well-being.

-*Spotlight on Poverty and Opportunity*
http://www.spotlightonpoverty.org/

Organizational Background

Originally founded in 1930 as the W.K. Kellogg Child Welfare Foundation, the W.K. Kellogg Foundation supports children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Its integrated approach centers on whole child development—ensuring the emotional, social, cognitive, physical, cultural, and civic development of young children, with a special emphasis on birth to age eight, within the context of families and communities.[13]

The WKKF defines vulnerable children in terms of poverty first, along with race, ethnicity, household headed by a single parent, and other factors as important considerations. The foundation defines poverty as *twice* the US federal definition of poverty, which for a family of four people is often measured by living at or below the income threshold of US$44,600. The foundation thus applies the benchmark measure of not just moving families above this poverty threshold, but to 200 percent above it.

During its most recently completed fiscal year, the foundation awarded over US$380 million in new grants to more than 800 projects. The mission driven investing team finalized six new impact investments during that year totaling US$21.85 million.

These grants and investments were allocated across WKKF's program areas of Education & Learning (E&L), Food, Health & Well-Being (FHWB), Family Economic Security (FES), Community & Civic Engagement (CCE), and Racial Equity (RE). This support was also spread across priority geographic areas, which include the regions highlighted in Map 1:

Map 1. WKKF Priority Places

Methodology

This case study follows the methodology developed by leading business schools as a logical framework, and outlines its analysis using two important interpretive tools.

The Wicked Problems analysis began as a social sector strategy that is now used by business leaders. It was created in 1973 by Berkeley urban planning professors Horst W.J. Rittel and Melvin Webber to describe "wickedly" complex social problems.[14] Wicked Problems are large, messy, complex, and systemic, and include many of the most challenging issues we face today, from global issues of poverty and climate change to local issues of failing education systems and lack of financial security and stability. There are no easy solutions to Wicked Problems, and though enormous progress can be made in alleviating them, they will remain with us.

Deliberate Leadership (DL) is a response to the challenges posed by Wicked Problems. It is a framework for leaders to use in tackling problems with no easy solutions. Each characteristic of DL is based on proven business and social sector theory and practice. They are recognized leadership strategies used in creating lasting positive change within companies and organizations and in the lives of people living at the bottom of the pyramid.

Deliberate Leaders are defined by the following, known as the 7C's (see also Figure 2):

- **Courage** to accept risk and ambiguity, recognizing there is no simple solution.
- **Collaborate** to work with diverse partners to help shape innovative solutions.
- **Community** to work locally to understand needs and solutions.
- **Candor** to invest in learning and embrace success and failure to build best practices.
- **Creativity** to find and test "big" ideas to imagine new futures.
- **Compassion** to be guided by empathy not ego.
- **Capital** to invest in sustainable long-term solutions.

Figure 2. Deliberate Leadership Characteristics

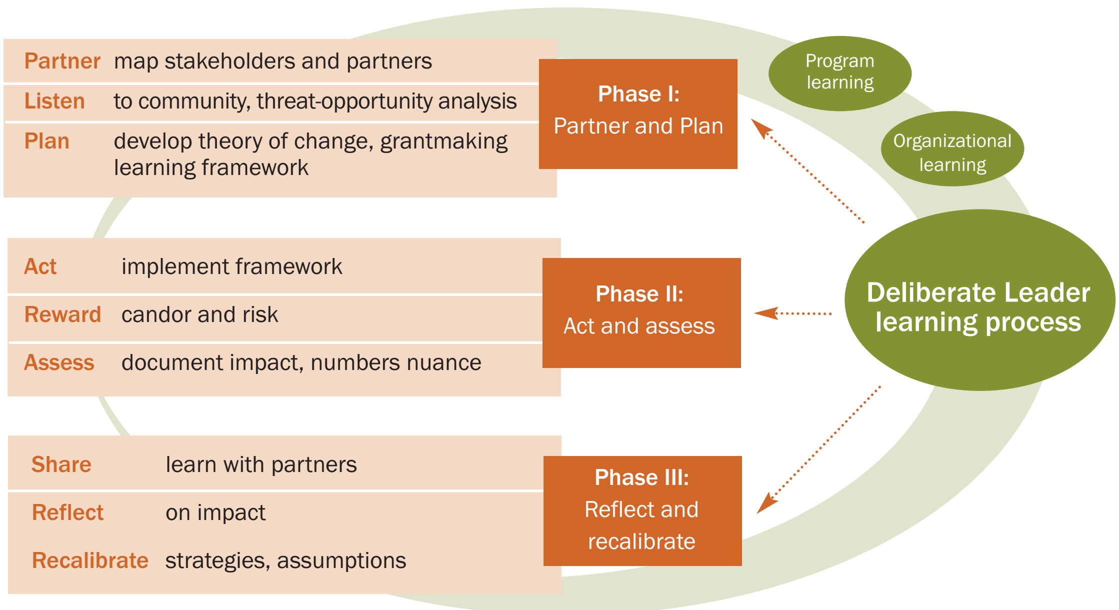
The combined construct of Wicked Problems and Deliberate Leadership was developed as an ethical framework and complement to rigorous business analysis and decision-making. Its goal is to provide a structure to the values-based leadership characteristics that are most likely to bring about sustainable, positive, and systemic change (see Figure 3).

Figure 3. Wicked Problem Construct and Deliberate Leadership

Is My Problem Wicked? Indicators of Wickedness	What Can I Do About it? Leadership Characteristics
■ Every wicked problem can be considered to be a symptom of another problem; they have no single root cause.	**Practice Deliberate Leadership:**
■ A wicked problem involves many stakeholders, who all will have different ideas about the problem, its causes, and solutions.	■ Courage—to embrace risky, ambiguous "wicked" problems; recognize that simple solutions won't be sufficient.
■ Choosing a solution to a wicked problem is a matter of judgment.	■ Collaboration—to engage diverse voices in decision making; tough issues need many talented minds and many perspectives.
■ Wicked problems do not have criteria to help judge if all solutions have been exhausted.	■ Community—to build solutions together, recognizing the solutions may already exist from within.
■ Solutions to wicked problems generate unexpected consequences over time and measurement is hard.	■ Candor—to speak the truth about what is working and what isn't to allow for essential recalibration to feed innovations.
■ Solutions to wicked problems all leave traces that cannot be undone because every attempt at a solution is significant.	■ Creativity—to imagine new scenarios for the future with partners.
■ It is impossible to write a well-defined problem statement about wicked problems.	■ Compassion—to be driven by empathy not ego.
■ Wicked problems have no stopping rule; as problems continue to evolve, the search for solutions must continue.	■ Capital—to invest in sustainable long-term solutions through social, environmental, and financial bottom lines.
■ Every wicked problem is unique, without precedent, thus experience does not help you address it.	
■ Problem solvers dealing with a wicked issue must be accountable for their actions.	

It is underpinned by a structured and measurable learning process, as outlined in the following (see Figure 4):

Figure 4. Deliberate Leader Learning Process



Using this framework, the authors undertook a desk analysis of materials provided by WKKF and related materials found through independent research. Information was supplemented by confidential interviews conducted with staff, investment committee members, and investment partners. A list of interview participants (Appendix A) and interview questions (Appendix B) can be found at the end of the document. Quotations attributed to interview participants are presented with their permission; otherwise all comments were provided anonymously.

"By warehousing endowments, foundations defer funding today's issues for the presumed benefit of funding tomorrow's. As a result, we all face the opportunity cost of leaving today's problems unsolved, and, while we may have a difficult time calculating it, there is certainly a considerable cost in doing so."

— William M. Dietel, Former Chair F.B. Heron Foundation[15]

Courage to Drive Change

Understanding History and Purpose

In 2008, impact investing was beginning to take a formal shape around both the term and through coordinated activities and sharing of information across the field. But the question of whether or not foundations were doing enough to address critical social problems was an old one. Over the years, many foundations have experimented with activities like screening out certain kinds of investments, making program-related investments, promoting shareholder advocacy, and engaging in mission related investing.[16]

The Wicked Problem that WKKF's impact investing program addresses is a common challenge amongst foundations. At present, only a small portion of the asset base of foundations, 5 percent or less in the United States, is deployed to advance the philanthropic mission of such institutions.[17] The majority of most foundations' assets are invested in order to ensure the preservation and growth of the foundation's endowment.

For WKKF, the response to this problem was to explore ways to "preserve the endowment and recycle capital while improving program outcomes."[18] After then-Program Officer and Director of Innovation Tom Reis suggested to Speirn that the time might be right for WKKF to consider impact investing, Reis and other staff were invited by Speirn to present the idea at an upcoming board meeting.

The board discussed the idea and decided that it had the potential to advance previous conversations about "going beyond grantmaking to leverage change."[19] Board members invited staff to work with colleagues in the Finance and Investment units to develop a full proposal.

To prepare to take on the risk of presenting and defending a new program, the team engaged in due diligence to fully understand the landscape and plan for the potential upsides and risk-exposures in this evolving space. Research was conducted by WKKF staff so that they could be fully immersed in the history of impact investing (which has its roots in socially conscious, labor, and religious investments, the divestiture movement and the Program Related Investment strategies begun by the Ford Foundation in the 1960s)[20] and to understand the motivations for engaging in this strategy. Most importantly, staff interviewed approximately 60 practitioners to learn from their experiences. Through this process, WKKF learned that:

- In a large space of possibilities, setting clear objectives and moving in small increments is helpful.
- Moving beyond the grantmaking mindset will allow for a more tactical investment strategy that can be applied across a range of asset classes.
- Building a cross-disciplinary team will activate a more balanced stream of expertise within the foundation.
- Forming partnerships and remaining flexible goes a long way in managing the complexities of the field.
- Striving to measure impact, not just outputs, will support an environment of greater learning and refinement of approach.[21]

Armed with these lessons, the team met once again with the Board to address the pros and cons of implementing an impact investment strategy. One focus of the meeting was to determine what to call the program. Demonstrating insight and creativity, a Board member pressed on the importance of naming the program **for purpose.** In other words, this member wanted the program to move beyond the 'Mission Related Investment' label and be called a Mission *Driven* Investing (MDI) program, thereby distinguishing the goal of the program and reinforcing its connection to the foundation's grantmaking priority areas. In particular, many Board members wanted to be sure that these investments would actively advance the mission and be aligned and coordinated with program priorities and criteria. The 'D' in MDI would help staff avoid losing focus on the mission returns.

At the end of the meeting, the Board asked the team to prepare a plan for staffing and implementing the program which could be discussed during the next Board meeting.

Creative and Deliberate: How to Manage and How to Implement

As the team had learned through their interviews with practitioners, staffing would be critical to maintaining the momentum and integrity of the program, especially during the 'learning by doing' phase.

The first step was to purposefully integrate different foundation programs, which meant collaborating with program staff from different priority areas and with investment and finance staff.[22] As La June Montgomery Tabron, Chief Financial Officer, recalls, "My role in the design phase was to ask: Can we do this? How can it happen? Are we ready and do we have the capacity to make it happen? Our Board looked closely to see that the endorsement was there from the finance team, the investment team, as well as the program team."

It is important to note that achieving a high level of internal integration is not always easy. Time and resources must be dedicated to working with staff to introduce them to impact investing and enhance their ability to connect grantmaking to investing as part of a holistic strategy. Early on, WKKF held a series of meetings and a retreat to help overcome concerns and incorporate MDI as a foundation program, not a separate activity.

Early in the due diligence process, WKKF sought out external expertise. Staff worked closely with a consultant who helped them develop their overall impact investment plan and became a long-term partner and intermediary in sourcing and executing investments. The consultant launched the firm Imprint Capital, which has grown and learned along with the MDI program, helps advance the MDI goals, and uses the insights it gained from this partnership to inform the growing impact investing field.

Outside of staff, the team sought out experienced partners to help the foundation create its plan and think through the execution of strategy and actual deals. This group ultimately became the Portfolio Management Team (PMT) which would be accountable for:

- Recommending policies and procedures
- Sourcing and screening opportunities
- Conducting due diligence and engaging in structuring of potential deals
- Identifying and working with partners to execute transactions
- Preparing deals for final decision
- Implementing approved investments[23]

Through this early phase of internal collaboration, WKKF saw that "by working together as a cross-program team, we demonstrated that we could operate very quickly. Not only did we work differently, we also unleashed a tremendous amount of creativity."[24]

To ultimately approve and oversee the MDI program, an Investment Committee was created to include the CEO, two program staff, a member of the investment team, and two external (non-staff) members. The final governance role would be provided by the Board's Finance Committee, which would include MDI within its overall responsibilities to the foundation and the communities it serves.

To develop the operating plan, the team looked to write an investment policy that blended well with the mission and took into account program and geographic priorities. The resulting plan would be managed by the PMT and detail the social and financial objectives, as well as the allocations approach and metrics for measuring multiple bottom line returns.

Underscoring the importance of working thoughtfully and in partnership to craft an appropriate and mission-focused plan, the team had an intensive retreat to develop investment criteria. The Finance Committee approved an Investment Policy Statement to govern the allocation of MDI funds in the US. The policy put forth the investment return goal of 4-6 percent and outlined limits on concentration of risk and diversification by asset class and mission priority.

A social metrics protocol soon followed (the guiding questions of which are included later in this document). In order to both outline and monitor alignment with the foundation's social criteria, the PMT engaged key stakeholders in the process of identifying the metrics and the best approach to collect and analyze outcomes data. The design principle for the protocol was to achieve simplicity and value through the investment decision-making process, which would thus help avoid unproductive research and debates.

Of note, the policy statement included a learning objective so that the foundation could capture lessons and report on process and results to Board and staff.

“Good parents give their children Roots and Wings.”
— Jonas Salk

Roots and Wings of Impact Investing

First Steps

Much like Salk’s vision of providing a foundation and a springboard for children to reach, the Board approved the MDI proposal that allocated US$100 million from the foundation’s endowment to be used to test out the impact investing hypothesis.[25]

Over the next year, the PMT continued to plan and meet with the Board to approve polices and plans and prioritize opportunities. For example, WKKF quickly decided to invest cash in accounts serving low-income communities such as community development financial institutions (CDFIs). The intent was that this investment (US$22 million) would support CDFIs in priority regions to move more money out into communities.

At the same time, however, the PMT worked on sourcing deals and creating its pipeline of potential investments. In delving into the day-to-day work of building an investment portfolio, the PMT encountered the challenges of this new venture. In this phase, the team had to address questions such as:

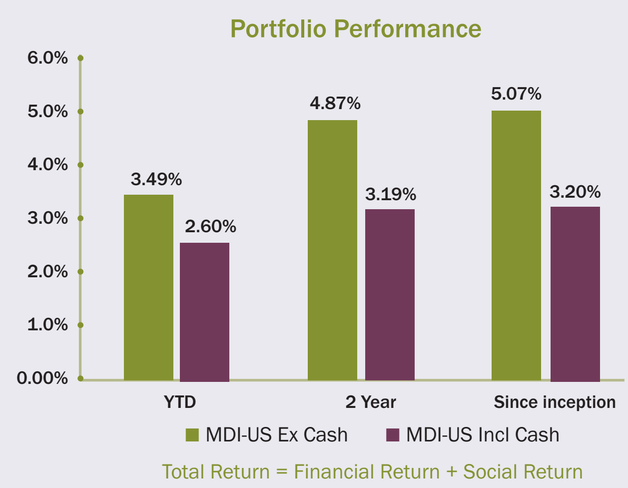
- How to maintain a steady pipeline of potential investments that meet all of the foundation’s criteria? What could the foundation do to help organizations understand the process for qualifying for investments?
- How to create a flow of deals that meet WKKF missions and financial return requirements?
- How to ensure staff capacity given the intensity of the MDI process?
- How to secure diversity across the process, including not just the targets of the investment but the intermediaries and other stakeholders as well?
- How to manage the outcomes of the MDI investments within the volatility of the current market?

As the team worked through the process of conducting its first market landscape scan (for Education & Learning), the foundation did so guided by an investment thesis crafted for each of the foundation’s priority areas. Using the results of the scan, the team was able to review nearly 600 E&L opportunities, 100 possible investment partners and intermediaries, and broad venture subsectors. A list of five opportunities was presented to the Investment Committee, with a focus on entities that had the strongest potential to meet the financial and social criteria. (An example of a current scan is provided in Appendix C.) One important outcome of this process was the decision to pursue investments in organizations that were more mature in order to make stronger progress towards social objectives.[26]

Learning on the Ground

As a final part of the planning process, the PMT delved into social metrics and learning to ensure that the foundation was capturing lessons and applying them productively.[27] The hypothesis to be tested was whether the MDI team could make mission-aligned, market rate investments that advanced the foundation's mission of supporting vulnerable children. To track the outcomes, the PMT developed a dashboard that would track core information from each investment. Figure 5 below, for example, is one type of dashboard used to monitor portfolio performance over time and also highlight investment activities in summary form.

Figure 5. Recent MDI Dashboard for US Investments[28]



Summary Highlights

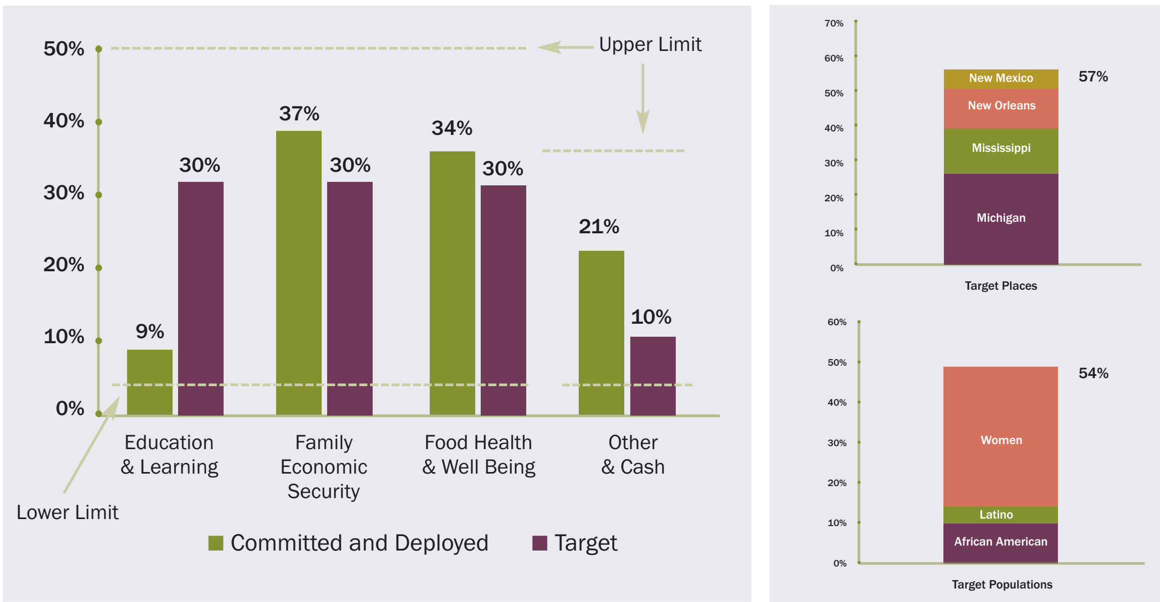
- **$100M total: $75M domestic, $25M International**
  - $77.8 million committed
    - $8.0 million CDARS
    - $16.5 million fixed income
    - $29.9 million private equity
    - $23.4 million South Africa
  - $52.1 million deployed
- **Diverse investment portfolio across multiple asset classes**
- **24 current investments**
  - Two exits since inception (2008)
  - Excludes CDAR exits, rollovers

In addition to tracking financial changes and outcomes, the team also developed a series of social metrics that could help capture whether and how investments were driving social change "consistent with the foundation's mission."[29] Metrics include:

- **Products and services** (number and/or dollar amount)
  - Jobs (number)
  - Capital flow to low- and moderate-income communities (dollar amount)
  - Housing units (number)
  - Small/family businesses (number)
  - Consumer loans (number and dollar amount)
- **Beneficiaries** (number)
  - Vulnerable children reached (number)
  - Vulnerable families reached (number)
- **Strategy** (education and learning, family economic security/wealth creation, and food, health and well-being)
- **Geography** (Michigan, Mississippi, New Mexico, and New Orleans)
- **Other**
  - Philanthropic giving for vulnerable children and families leveraged (number and dollar amount)
  - Philanthropic giving influenced to benefit vulnerable children (number and dollar amount)

These social metrics are similarly tracked in a separate dashboard (see Figure 6) that allows stakeholders to better understand how investments are targeting and reaching priority programs, places, and populations.

Figure 6. Recent MDI Dashboard for Social Metrics in US Investments[30]



The MDI portfolio is currently within broad ranges for program allocations as set forth in its investment policy.

Finally, the team set up a structure to routinely reflect on what it was learning.

During that early planning phase, the team had the following important take-aways (see Figure 7):

Figure 7. Planning Phase Lessons

With this knowledge in hand, and a structure and protocols in place, the foundation was now fully ready to make its first investment deals.

> "At the foundation we see mission driven investing as an additional tool to go beyond traditional grant-making, which enables us to achieve our triple bottom line—social returns, financial returns, and learning returns—for the fields of philanthropy and business. When we all share what we know and what we've learned, we multiply the opportunities to get the outcomes we all want."[31]
>
> — Sterling Speirn, WKKF President and CEO

Illustrations of Deals, ROI, and Reflections

Exampes of the Deal Flow Process

One area in which the foundation has found financially and socially promising deals has been the area of Food, Health & Well-Being. As with any investment, a thorough due diligence process is required and there may be fewer options to choose from once a larger set of possible deals has been vetted for the social criteria to which investors may choose to adhere. Nonetheless, MDI has found a richness of opportunities (see Table 1 below) as it has grown and tested its own processes.

Table 1. Food, Health & Well-Being Investees

Community Capital Management	Happy Family	National Cooperative Bank (NCB)	Revolution Foods	Southern Bancorp
US$12 million for a managed fixed-income account building community intrastructure and assets to benefit vulnerable families in WKKF's three target states and New Orleans.	US$3 million in growth capital for fast-growing company providing organic baby food at price points affordable to vulnerable families	US$3 million CDARS insured cash deposit targeting lending to food co-ops, community grocery stores, and food-related enterprises for vulnerable communities in WKKF's three priority states.	US$5.75 million in growth capital to provide healthy school lunches to vulnerable children in Pre K-12 schools nationwide.	US$5 million equity investment in a mix of convertible preferred and common equity to fuel growth of leading rural CDFI in Mississippi Delta.

Through a rigorous scan of the food industry, the MDI team focused in on alternative distribution and retail as key areas of mission and market overlap. Leveraging the WKKF networks and expertise in its substantial food-related program areas, the MDI team was able to source a wide range of potential investments across asset classes. The combined brand and expertise of WKKF and MDI have also attracted leading social enterprises to the foundation as a source of capital. For example, investee Revolution Foods is backed by well-regarded venture capital firms and has turned away leading venture capital investors, preferring to work with the foundation as a mission investor. Happy Family, another investee, has also turned down offers from other venture capital firms and has taken investments from the foundation because it believes this is a better fit for the company's mission.

In addition, the team found investment intermediaries with active food portfolios that were willing to sift through their investments for opportunities that met the foundation's narrow program interests around food access in target geographic places. NCB Capital Impact, for example, accepted a linked deposit to be re-loaned to its national food lending program. Similarly, partner Community Capital Management has been able to find high quality bond issuances that support community gardens and school food facilities in foundation priority places of New Mexico and Michigan.
Additionally, WKKF has found that the food-related partners discovered through this process have brought a mixture of social and financial outcomes.

For example, through private equity investment in two food-related investments, MDI staff has been able to more personally engage in the selection process, as well as the ongoing oversight of the organization (through observer positions taken on the boards of some investees). Some in the field have been slow to embrace equity investments because of the time needed to fully vet the opportunities, as well as the feeling that there are few mature organizations prepared for such an investment.[32] MDI, however, has found that the direct investments it has made in organizations advancing food-related goals are not only contributing to social and financial outcomes,but also enabling WKKF staff to expand their knowledge into policy areas that help reinforce mutual impacts.

In separate stories shared by staff, investments in different companies working to improve access to quality food for low-income families and communities led to multiple outcomes due to the deep relationships formed through the deal-making process. With Happy Family, Inc., WKKF invested US$4.6 million overall in the form of loans and partial ownership stake to support the expansion of their model to produce high-quality, organic food for babies, toddlers, and young children in a manner that was accessible and affordable to families that would not ordinarily choose organic, specialty foods because of higher prices.[33] Today, Happy Family products are available in over 13,000 retail stores across the country, including national and regional grocery chains, as well as ethnic stores.

In this example, WKKF not only provided investments to improve food quality and access, but staff is also using policy outcomes achieved by this grantee to increase communications and policy advocacy efforts to widen the impact of this work.[34]

In a similar story, investee Revolution Foods is working to improve the supply chain for getting fresh, healthy food directly into schools. Seeing alignment across several elements including health, education, economic security, and community engagement, WKKF (over time) invested a total of US$5.75 million in growth capital and equity (including both a working capital line, mezzanine debt to help the company grow, and small equity investments).[35] With these investments, Revolution Foods has been able to leverage new resources and expand operations into new markets. WKKF, in the meantime, has been able to learn more about the policy implications of the agricultural supply system and thus inform its decision-making and policy advocacy processes in other program areas.

As Berkley notes, “We have been a strategic investor in Revolution Foods, developing flexible ways to work with the company as it has grown while staying true to the WKKF commitment to be an impactful and responsible investor. Our focus is the ‘D’ in mission-driven investing. We must drive impact with our investments.”

To be clear, these examples do not discount the connections that can be made through other types of investments. Another example of the dimensions that influence and flow out of the MDI is the foundation’s investment in NCB Capital Impact, a Community Development Financial Institution that seeks to improve access to high-quality health and elder care, healthy foods, housing, and education in low-income communities across the country. The scope and impact of its work attracted the MDI team and led to a total of US$6 million in cash and fixed income investments to support “…financing of charter school facility expansion; construction and renovations in the foundation’s priority places of New Orleans, Mississippi, Michigan, and New Mexico; and…healthy foods initiatives in urban areas.”[36]

As a foundation committed to community, WKKF was also interested in Capital Impact's approach to repayment, which can be flexibly structured around timetables that meet the needs of community-based borrowers while supporting the achievement of the intended social change before exiting the investment.

"Capital Impact's depth of experience in communities, its cooperative approach, and diverse network of alliances made it a natural fit for the W.K. Kellogg Foundation's mission-driven investment portfolio," said John Duong, a member of the foundation's MDI team.[37]

Community Capital Management has also been able to shape and secure public bonds to support needed infrastructure in WKKF's priority states, thereby advancing its own and the foundation's work in priority programs and places and setting a model that others working on municipal bonds can use.

Finally, though these investments are not the focus of the case, it would be an oversight to exclude investments in Africa, which total US$23 million (of the total asset allocation of US$25 million for southern Africa) invested in two private equity managers. One investment, made to Agri-Vie for US$18.4 million, focuses on growth stage agro-enterprise in Africa, with a concentration in the southern cone of Africa.

This layered approach to investments enabled WKKF to continue to build a diverse portfolio, pursue multiple bottom lines, address priority geographies, and expand its social and economic infrastructure to meet the needs of children and their communities.

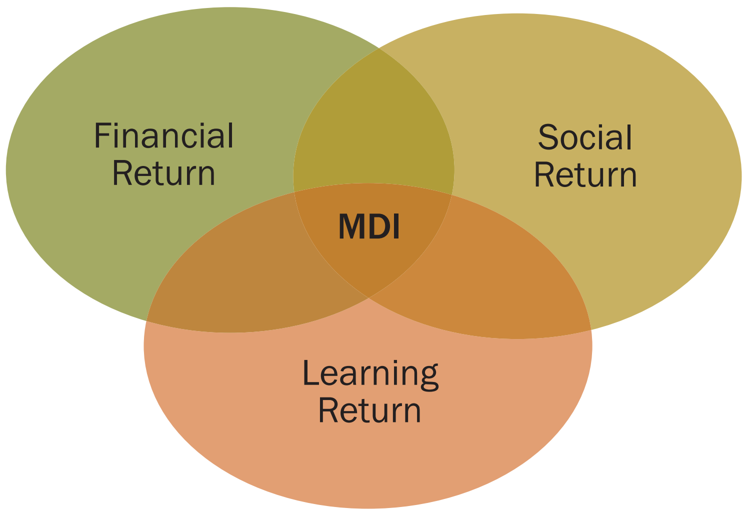
"For the things we have to learn before we can do them, we learn by doing them."
— Aristotle

Conclusion: Lessons and Opportunities

Some Near-Term Outcomes

From the early stages of development, WKKF positioned its mission driven investing initiative as a learning laboratory for the entire organization, as well as a testing ground for the foundation's new framework for cross-functional collaboration, innovation, risk-taking, and action learning.[38] MDI, therefore, sought to approach outcomes through a lens that analyzes financial, social, and learning returns (see Figure 8):

Figure 8. Three Aspects of Investment Return



Five years after the spark of the idea, the MDI program can now look at a group of outcomes along these 'areas' and say that it has been meeting its goals across the spectrum of criteria. At the writing of this case, almost 78 percent of the original US$100 million allocation has been invested or committed. Investments have been made in accordance with programmatic, geographic, and equity priorities as can be seen in the previous Figure 5.

Though staff is quick to point out that they are still learning and that not enough time has transpired to come to any solid conclusions, they are able to highlight the following social returns from their most recently completed fiscal year (see Table 2):

Table 2. 2011 MDI Investee Outcomes (US)[39]

81,112	healthy school meals served daily
$54.7 million	invested in healthy food access
4,154	vulnerable children supported in school
171,670	underbanked Americans served
2,022	jobs created/sustained for low-income workers
11,979	housing units created for low-income families
$1.7 billion	invested in low-income communities

"They [WKKF] are willing to be honest. It's not window dressing."

—Interview participant

Opportunities through Deliberate Leadership

Is it possible that the MDI program is moving into a space where it no longer considers itself to be an experiment? This question is a double edged sword in that the program has experiences and outcomes that would benefit newcomers to the field, but the staff and board agree that the best approach to MDI is to go slow and consider the program to be a long-term engagement.

MDI staff are increasingly sought out to speak on panels and consult with others interested in launching their own impact investing programs. This shows that, despite their humility, their achievements as a Deliberate Leader in this space are being noticed. WKKF's MDI work has been notable for the following:

- **Courage** to move quickly to explore a new idea that could significantly impact their target audience of vulnerable children and the communities in which they live. Though the development of the MDI program was thoughtfully done, the less than one-year timeframe from idea to investment showed that WKKF is willing to experiment in order to use all of its resources to create better opportunities for children to thrive.

- **Candor** to plainly state that MDI is a learning process and that staff do not consider themselves to be experts. As John Duong stated, "No one is an expert in this space yet. It's too new." Though the field has been evolving over the years and moving into different, if related, directions, this willingness to be honest about what is known and not known about the sector is important to help measure progress and serves to show newcomers both the potential and the challenges in impact investing. As WKKF staff frequently stated, they consider themselves to be competent practitioners who make competent investments, but nothing more. Without this honesty, any real change achieved through impact investing will be even more difficult to measure.

- **Capital** to explore new paths to take for long-term solutions to poverty and inequality. WKKF undertook this journey into impact investing knowing the history and the challenges, as well as the potential upsides. As one interview participant noted, WKKF "puts its money where its mouth is." Human capital, however, has also been critical from the beginning when the PMT made sure that the staff involved represented all the different WKKF departments and program areas, as well as staff hired with specific expertise and the partnerships with intermediaries. This combination has helped WKKF add measures of control into a constantly changing field.

- **Creativity** to find and test "big" ideas to imagine new futures. Foundations are often accused of being slow to change and unwilling to take risks to address undamental social problems. WKKF's willingness to jump into MDI (though well-prepared) demonstrates that staff and leadership are open to new ideas, flexible in creating new structures to achieve mission, and able to think beyond the five percent.[40] As one interview participant noted, "Kellogg has been willing to try. They refine their thinking and are figuring it out to make it work. This may not be at a lightning pace, but they give it a shot. That says a lot for them."

- Considering **Collaboration** to be an essential part of program development, WKKF was able to leverage internal and external knowledge to build an approach that created institutional buy-in and to work with diverse partners to help shape innovative solutions.
- **Community** is part of the core of WKKF's mission. MDI exhibits this not only through its work with partners and stakeholders to constantly refine the program, but also through the commitment to understanding the impact of its investments on people. MDI staff meets with investees to know about outcomes first-hand, including investees/beneficiaries that are funded by intermediary investment organizations.
- **Compassion** to be guided by empathy not ego. WKKF's mission makes its commitment to children clear, but in the varying field of impact investing, programs are not always so closely aligned to the social mission. From the beginning, staff and Board sought an equal space for social and financial returns, with a great deal of thought put into investment criteria that reflected all of the foundation's priorities.

In this imprecise and evolving field, WKKF is forging its own path armed with the lessons of others. As it moves into its next phase, it will be important to consider how the program changes and how it will stay the course to ensure continuity with innovation.

Further Case Questions

1. Given the foundation's social and financial criteria (such as target financial return, level of risk, mix of products, distribution of assets across program areas), how has it been able to maintain a steady pipeline of potential investments?
2. What changes or adjustments has the foundation made to reach target results?
3. What process and criteria does the foundation use to select an intermediary? What portions of the pipeline process does the intermediary manage and what does foundation staff manage? What are the costs of using an intermediary?
4. How does the foundation manage the outcomes of the MDI investments within the volatility of the current market?
5. How does the foundation capture learning returns and recalibrate its strategy based on new knowledge?

Considerations for Emerging Philanthropists and Investors

Conclusion: Lessons and Opportunities

Though WKKF staff stated repeatedly that they were still learning and growing with the MDI program, they and other interview participants did share what they considered to be key insights from the experience that could be beneficial to new investors. These included:

- In spite of the concerns dominating the impact investing conversation, there are deals to be made that spur both financial and social returns. The challenge, in fact, is narrowing the field down to those more aligned and with the strongest potential for success.
- Related to the previous comment, the challenge in having specific and narrow criteria must be acknowledged. It limits the number of strong opportunities and makes the processes longer and more difficult. As one interview participant noted, "You need to have respect for how hard change is..."
- It is critical to have a supportive and informed board of directors. With such ventures, there is a risk of substantial loss and the board has to know this and be prepared for the possibility.
- Investors must be willing to provide the resources necessary to get a program off the ground. A program must be done thoughtfully and pragmatically to ensure real dividends.
- There is a track record of success that others can learn from. "This is not a fad."
- Impact investing is 'not one size fits all.' Staff has to be willing to drive to targets but keep an open mind and negotiate what outcomes make the most sense for each investment.
- Ideas about sourcing investments must be continuously revisited. As WKKF learned, much work was required to find the right investment because the internal pipeline through program officers was subject to competing interests and competencies and an inclination towards high-risk proposals, while the external pipeline simply could not be managed like the grant request for proposal pipeline.

"It is today that our best work can be done and not some future day or future year. It is today that we fit ourselves for the greater usefulness of tomorrow. Today is the seed time, now are the hours of work, and tomorrow comes the harvest and the playtime."
— W.E.B. Du Bois

- Impact investors sometimes come with over-engineered concepts. It's important to keep in mind that communities know what they need and to partner accordingly.
- The question of how to exit a deal is not resolved. In particular, according to WKKF staff, the ethical question must be asked about whether the social objectives will continue to be a priority once an investment is out of the foundation's hands (such as, for example, if the investee is bought out).
- There will be trade-offs to consider. No investment will be able to perfectly meet social and financial goals. So, investors must decide what trade-offs they are willing to accept.
- Staffing for an impact investing program must include a blend of expertise that balances the social and financial requirements.
- Investors must ask themselves "What is our edge?" If this can't be answered to meet impact investing goals, then partnerships must be employed to assure the best possible outcomes.
- For international investments, having someone on the ground is important to ensure alignment with objectives and expectations.
- Learning from impact investments is an on-going, imperfect process. Of the MDI outcomes WKKF seeks to track, this is the hardest to quantify. WKKF is still working to capture these lessons and develop the optimal strategy for sharing across the foundation.

Appendix A.

List of Interviewees

Table 1. List of Interview Participants

Name	Title	Organization
Tony R. Berkley, Ph.D.	Director of Mission Driven Investments	W.K. Kellogg Foundation
Elyse Cherry	Chief Executive Officer	Boston Community Capital (and President of its affiliates, Boston Venture Fund, Aura Mortgage Advisors and NSP Residential)
John Duong	Program and Portfolio Officer, Mission-Driven Investments	W.K. Kellogg Foundation
John Goldstein	Managing Director	Imprint Capital
Dana Linnane	Policy Communications Manager	W.K. Kellogg Foundation
Dorothy A. Johnson	Former Trustee	W.K. Kellogg Foundation
Reginald Sanders, CFA, CAIA	Director of Investments	W.K. Kellogg Foundation
Scott Sporte	Chief Lending Officer	NCB Capital Impact
Barbara VanScoy	Chair of the Board, Senior Portfolio Manager and Co-Founder	Community Capital Management

Appendix B.

Interview Questions

For WKKF Staff

1. What do you believe are the complex, systemic, “Wicked Problems” that MDI seeks to address?

2. Why was MDI developed? How does it fit with and complement WKKF’s grantmaking strategy?

3. What do you think is the role of business strategy in helping the Foundation meet its social goals through MDI?

4. How involved is WKKF program/leadership staff in proposing, selecting, or supporting investments?

5. What role do intermediaries play in the MDI process (pipeline creation, due diligence, and evaluation)?

6. What risks do you think have been assessed and managed in the program? What obstacles were faced?

7. What role did collaboration and community-building play in laying the foundation for MDI? What role do they play now? If possible, talk about the relationship with partners like Progress Investment Management, Imprint Capital, and NCB Capital Impact. How formal is their role in the MDI process?

8. What lessons do you think WKKF has learned about scale, impact, and creativity? Do you believe MDI is reaching as many people as it could (at this stage) and changing to respond to new opportunities? How do you share lessons with colleagues, peers, and investees?

9. What are the most pressing challenges in MDI right now? Is it difficult to find investments that meet all Foundation criteria, including advancing equity? How to you ensure/monitor for these types of outcomes?

10. How important is transparency in both implementing investments and internal (staff) reflection? What type of evaluation and knowledge management approach is used to assess impact? What part do numbers (quantitative performance measures) and nuance (qualitative data) play in these reflections?

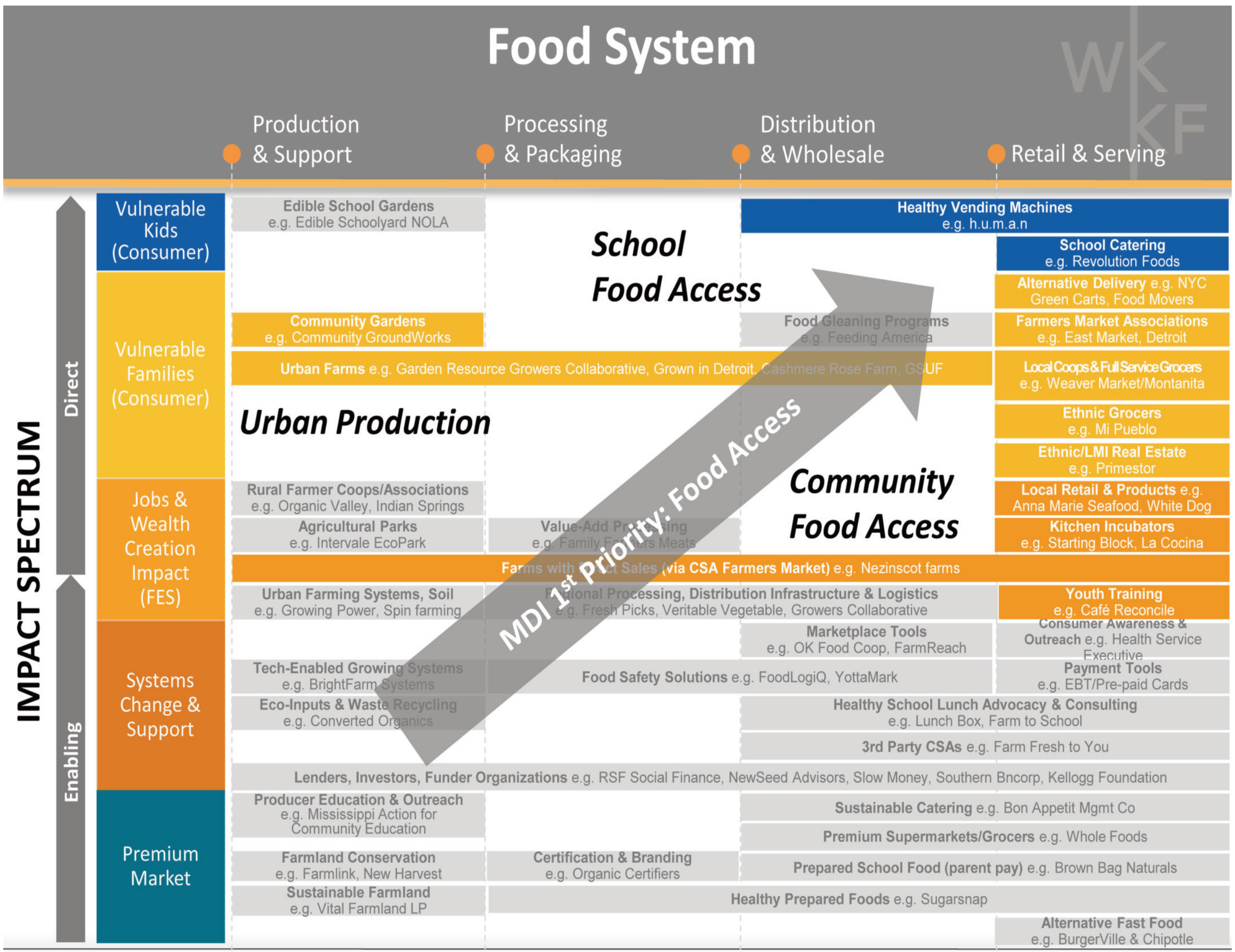
11. What role does compassion (putting your ego and ideas aside to listen to the needs of the people you are trying to help) play in MDI's efforts to track outcomes and refine the program?
12. What lessons from MDI do you think are most relevant for a global audience interested in experimenting with an MDI-style program (from both an administrative and programmatic point of view)? What do you think is most teachable from this experience?
13. Describe the relationship between the MDI team and the Food and Health and Well-Being staff. What have you learned about promoting a collaborative relationship?
14. How do MDI investments and grants complement each other? What are emerging synergies?
15. What are the main challenges to finding and vetting Food investments?
16. How are pipeline investments created to advance mutual objectives in food system reform? To what extent are you also able (considering the pipeline) to consider investments that connect to both Food and FES goals?
17. How have you been able to create a community of mutual learning with MDI food investees and grantees?
18. What are the challenges and opportunities in collaborating? Are there similar opportunities among other WKKF portfolios?
19. Are there cross-sector, external partnerships that have emerged that are worth sharing?
20. Which Food investments do you consider to be most successful? Why?
21. Are there unique advantages that Food investments offer to WKKF?
22. How do you approach ROI from a financial, environmental, and social perspective?
23. How do you align MDI returns with those from the PRI and grantmaking programs to assess WKKF impact?

Appendix B.

For Stakeholders

1. Describe your role with the MDI program at WKKF.
2. Talk about the history of the relationship and how it has evolved over time.
3. How does your work dovetail with the goals of the MDI program?
4. How do you create a pipeline and help evaluate and make investments on behalf of MDI?
5. Describe how this process plays out specifically for food-related investments. Walk us through some examples if possible.
6. What do you think your organization has learned from working with the MDI program?
7. What kind of partner is WKKF/MDI team?
8. Where do you think this work stands in the spectrum of impact investing?
9. What challenges have you faced in working to meet the WKKF and MDI criteria?
10. What do you think are the most teachable aspects of your partnership with MDI?

Food Investments Scan



W.K. KELLOGG FOUNDATION ImprintCapital

Notes

Notes

[1] Steve Godeke with Doug Baur, *Philanthropy's New Passing Gear: Mission-Related Investing* (New York, NY: Rockefeller Philanthropy Advisors, 2008).

[2] For the purposes of this case, the GIIN's definition of impact investing will be used with the understanding that different stakeholders and actors in the field apply varying definitions: "Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances." http://www.thegiin.org/cgi-bin/iowa/home/index.html

[3] This term is being used for a broad group of investment professions engaged in a variety of financial practices focused on improving social, environmental, and governance outcomes.

[4] "SRI Survey: 2013 to be Year of 'Impact Investing,' Wider Institutional Investor Acceptance of ESG Approach," (First Affirmative Financial Network: September 5, 2012). http://www.firstaffirmative.com/resources-news/news/2013-to-be-year-of-%E2%80%9Cimpact-investing/

[5] J.P Morgan and GIIN, Perspectives on Progress: The Impact Investor Survey, January 7, 2013.

[6] *European SRI Study. (*Belgium*:* Eurosif). 2012.

[7] It is important to keep in mind that there may be overlap between the J.P. Morgan/GIIN figures and the Eurosif figures. Additionally, these amounts represent estimates from survey participants and do not capture the full market of investments, which remains a challenge the field must address.

[8] Jessica Freireich and Katherine Fulton, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry* (San Francisco: Monitor Institute, 2009).

[9] J.P Morgan and GIIN, Perspectives on Progress: An Emerging Asset Class, November 20,2010.

[10] This term will be used throughout to cover general impact investing, as well as social investing and related strategies. The specific term used by WKKF is discussed in other parts of the case.

[11] This case study is part of the Case Study Series sponsored by WKKF to enhance learning about innovative approaches to poverty alleviation. It was developed through collaboration between Partners *for* Change (P*f*C), an international consultancy, and the Saïd Business School (SBS), University of Oxford. This case will serve as a resource in the US and also be utilized as a teaching tool in graduate business programs and executive education programs at SBS.

[12] http://mdi.wkkf.org

[13i] W.K. Kellogg Foundation 2012 Annual Report. http://annualreport.wkkf.org/

[14] Horst W.J. Rittel and Melvin M. Webber, "Dilemmas in General Theory of Planning," *Policy Sciences* #4 (1973).

[15] William M. Dietel, *Mission Stewardship: Aligning Programs, Investments and Administration to Achieve Impact (*New York, NY: F.B. Heron Foundation, 2006).

[16] PRI's must meet specific US tax code requirements and not pursue a specific investment purpose. MRI's currently are not held to any legal charitable standards in the US tax code. From David Levitt, *Unscrambling MRIs and PRIs, Philanthropy Journal, April 5, 2011.* http://www.philanthropyjournal.org/resources/managementleadership/unscrambling-'mris'-and-'pris'.

Notes

[x17] By US law, foundations are mandated to pay out at least five percent of their assets each year. Over the years, many foundations have fallen to using this percentage as a default maximum "payout."
[18] *Ready: Selling the Idea.* http://mdi.wkkf.org/
[19] Ibid.
[20] Kipp Baratoff, "Impact Investing: The Secret Marriage between Philanthropy and Finance," *Sustainable Industries,* November 30, 2010. http://sustainableindustries.com/articles/2010/10/impact-investing-secret-marriage-between-philanthropy-and-finance
[21] *Ready: Selling the Idea*. http://mdi.wkkf.org/
[22] *Set: Mobilizing for Action.* http://mdi.wkkf.org/
[23i] Ibid.
[24] Ibid. Quote from former staff member Ted Chen.
[25] *Go: Investing for Impact-the early years.* http://mdi.wkkf.org/
[26] Ibid.
[27] Ibid.
[28] Image courtesy of WKKF.
[29] *Go: Investing for Impact-the early years*. http://mdi.wkkf.org/
[30] Image courtesy of WKKF.
[31] "Philanthropic and business sectors to gather for path-breaking program on impact investing", *The Wall Street Journal Market Watch,* March 4, 2013. http://www.marketwatch.com/story/said-business-school-university-of-oxford-and-wk-kellogg-foundation-announce-launch-of-the-oxford-impact-investing-programme-2013-03-04
[32] Gesche Niggemann and Stefan Brägger, "Socially Responsible Investments," *UBS Wealth Management Research*, August 11, 2011. http://www.ubs.com/global/en/wealth_management/wealth_management_research/wealth_management_research_noflash.html
[33] WKKF, Happy Family Web story, 2012.
[34] The investee was successful in getting the state of California to allow those using the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) to pay for the investee's product, which is organic. Coverage of organics by WIC varies by state and few organic foods are considered eligible.
[35] WKKF. Revolution Foods Web story, 2012.
[36] WKKF. NCB-Capital Impact Web story, 2012.
[37] Ibid.
[38] Ibid.
[39] Image courtesy of WKKF.
[40] Referring to the 5% payout mandated for foundations by the US government (IRC Section 4942(g) Qualifying Distributions).