What is Impact Investing?

- Investing to make a positive social or environmental impact and generate a return.
- Mission-related investing.
- A way for philanthropists to put more resources in the service of their mission.

Impact investing is a catch-all term for putting money to work in ways that are different from traditional investing. The goal is both to make a positive social or environmental impact and generate a financial return for the investor. It’s a growing trend in philanthropy, as more foundations choose to invest their assets in ways that advance their missions.

Tell me more
Private foundations are created to use a significant amount of money for philanthropy. The founders make a tax-deductible contribution to establish the foundation’s endowment (the pile of money), and then every year, the foundation is required to pay out at least 5% of the value of those assets in the form of grants and core operating expenses. Some pay out more, but there is still a lot of money sitting in foundation endowments: U.S. foundations collectively pay out about $80 billion a year, while sitting on almost $1 trillion in assets.

So what happens with all that money that is not given away?
It’s invested. That can mean anything from parking it in accounts at big banks to building elaborate investment portfolios.

With impact investing, instead of focusing entirely on what’s going to provide the greatest return, an investor aims to generate returns while also making a positive social or environmental impact. This can mean all kinds of things, including investing in renewable energy, pulling investments out of companies that sell fossil fuels or make weapons, or investing in the development of affordable housing.
Foundations that choose impact investing often make mission-related investments (MRIs). This means that instead of just seeking social or environmental benefits broadly, they focus those investments in line with the foundation’s specific mission. So a foundation whose mission is to resource Black communities might put its investments at Black-owned banks.

Other foundations choose to divest from—meaning proactively not invest in—certain industries or areas that are at odds with their missions. For instance, the Rockefeller Foundation, which holds $5 billion in assets, and was founded by the most famous and successful oil tycoon in history, has pledged to divest from fossil fuels. Others, like the California Endowment, have divested not just from fossil fuels, tobacco and other industries that have a negative impact on community health, but also from private prisons.

As with conventional investments, the investor has a choice about the level of risk and the types of investments they want to take on. While impact investing does generate returns—that’s what makes it investing instead of philanthropic giving—overall, the returns tend to be somewhat lower than those of conventional investing.

Some foundations dedicate a portion of their investing to impact investing, and make more conventional investments with the remainder. Others, like the Heron Foundation, believe that all of their activities should advance their mission, and put their entire endowment into impact investments.

Grantmaking is far from the only way a foundation can have a financial impact. Given the numbers—that $1 trillion+ sitting in foundation endowments—impact investing represents a huge untapped potential. There are also increasingly options for donor-advised fund holders to participate in impact investing as well, representing another $140 billion+ in assets. Individual mega-donors who give through LLCs often engage in for-profit impact investing, as well.

Organizations like the Tipping Point Fund and the Global Impact Investing Network are working to make it easier for philanthropic organizations to shift investment priorities and scale up their combined impact.
You may also want to check out:

- What is an endowment?
- What is an LLC?