Understanding Impact Investing

Balancing Profit with a Purpose

by Stephen W. Spencer, Principal, Senior Consultant

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Impact investing is a strategy designed to generate positive social or environmental effects in addition to financial returns. This approach appeals to nonprofit organizations seeking greater alignment between their investment portfolio and broader charitable mission. The concept and practice of impact investing continues to evolve, gaining notable traction over the past decade. This approach is driven by growing concerns and motivation to address ongoing global challenges, such as climate change and economic inequality, through innovative financial mechanisms.

What is Impact Investing?

Impact investing involves allocating capital to projects, companies or funds to create measurable social or environmental benefits. Unlike traditional investing, which primarily focuses on financial returns, impact investing seeks to balance profit with purpose. This can include investments in sectors such as renewable energy, affordable housing, healthcare, education and sustainable agriculture[1].

The concept of impact investing was first coined by the Rockefeller Foundation in 2007[1]. Since then, it has evolved into a diverse and dynamic field, encompassing various asset classes including stocks, bonds, private equity and venture capital. Impact investors range from individual philanthropists to large institutional investors, such as pension funds, banks and foundations[2].

Trends in Impact Investing Over the Past Decade

The impact investing market has experienced remarkable growth over the past ten years. According to the Global Impact Investing Network (GIIN), the market reached approximately $1.571 trillion in assets under management (AUM) by 2024, a compound annual growth rate of 21% since 2019[3]. This growth has been driven by several key trends including:

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[1] State of the Market 2024: Trends, Performance and Allocations - The GIIN, September 2024
[2] What you need to know about impact investing - The GIIN, January 24, 2025
[3] Sizing the Impact Investing Market 2024 - The GIIN, October 2024

1. **Increased Awareness and Demand**: There has been a significant rise in awareness about the importance of sustainable and responsible investing. Investors are increasingly seeking opportunities that align with their values and contribute to societal goals. This shift is partly due to the growing influence of millennials and Gen Z, who prioritize social and environmental impact in their investment decisions[3].

2. **Climate Solutions**: Climate change has emerged as a critical area for impact investing. There is a growing emphasis on funding projects that mitigate environmental risks and promote sustainability. Investments in renewable energy, energy efficiency and climate resilience have seen substantial growth[4].

3. **Innovative Financial Instruments**: The development of new financial instruments has expanded the scope of impact investing. Equity-like debt, social impact bonds and blended finance models are being used to attract more capital and enhance the effectiveness of impact investments[4].

4. **Enhanced Measurement and Management Practices**: There has been a significant improvement in the measurement and management of impact performance. Investors are increasingly using standardized metrics and third-party verification to assess the social and environmental outcomes of their investments. This trend is crucial for ensuring accountability and transparency in the impact investing sector[4].

Utilization of Impact Investing by Endowments and Foundations

Endowments and foundations have played a pivotal role in the growth of impact investing through the substantial financial resources they manage and the natural link to serving the community. Endowments and foundations employ impact investing through various strategic approaches:

1. **Mission-Related Investments (MRIs)**: Foundations often use their endowments to make MRIs, investments that align with their philanthropic goals while seeking competitive financial returns. Unlike program-related investments (PRIs), MRIs do not count towards a foundation's annual payout requirement but are designed to support the foundation's mission[5].

2. **Program-Related Investments (PRIs)**: PRIs are investments made by foundations to achieve specific programmatic objectives. These investments can take the form of loans, equity stakes or guarantees and are typically made at below-market rates. PRIs are counted as part of a foundation's annual 5% payout requirement and have special treatment under the IRS[5].

3. **Collaborative Impact Investing**: Foundations often collaborate with other investors, including community development financial institutions (CDFIs), government agencies and

[3] Sizing the Impact Investing Market 2024 - The GIIN, October 2024
[4] 2023 GIINsights - The GIIN, August 2023
[5] Beyond the Grant: Foundations as Impact Investors, The Bridgespan Group, September 2020

private sector partners, to amplify their impact. These collaborations can leverage additional capital and expertise, enabling foundations to tackle complex social issues more effectively[6].

4. **Impact Investing Policies and Governance**: Many foundations have formalized their commitment to impact investing by incorporating impact criteria into their investment policies and governance documents. This helps ensure impact considerations are integrated into decision-making processes and aligns the foundation's investments with its mission.
5. **Capacity Building and Technical Assistance**: Foundations frequently provide capacity building and technical assistance to their investees. This support can include funding for organizational development, strategic planning and impact measurement. By strengthening the capabilities of their investees, foundations can enhance the effectiveness and sustainability of their impact investments.

An Evolving Focus to Align Investments with Values

For nonprofits seeking to address global challenges and drive positive social and environmental change, impact investing offers the potential to enhance traditional capital allocation. Over the past decade, the field has grown significantly, fueled by increased awareness, innovative financial instruments and importantly enhanced measurement practices. Endowments and foundations have been at the forefront of this movement, leveraging their financial resources and expertise to create meaningful impact.

As the impact investing market evolves, investors must remain committed to transparency, accountability and collaboration. By doing so, they can help ensure their investments not only generate financial returns but also contribute to advancing their desired missions.

For those interested in exploring mission-aligned investing, Fiducient Advisors offers a range of resources to help align your investments with your values. Please contact any of the professionals at Fiducient Advisors or visit www.fiducientadvisors.com to access comprehensive guides and tools on mission-aligned investing.

[6] Beyond the Grant: Foundations as Impact Investors, The Bridgespan Group, September 2020

About the Author

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Steve provides advice and counsel to institutional clients on all areas of fund oversight including asset allocation, portfolio structure and rebalancing, performance monitoring, manager selection, spending policy and overall investment policy. Steve joined the firm in 2000 and is a member of the Endowments and Foundations Business Council. He co-authored The Practical Guide to Managing Nonprofit Assets (John Wiley & Sons) and was a contributing author to Nonprofit Asset Management: Effective Investment Strategies and Oversight (Wiley Nonprofit Authority). Steve received a BA in Economics from the University of New Hampshire. He obtained the title Certified Investment Management Analyst (CIMA®) from the Investments & Wealth Institute™ accreditation program at the Wharton School of Business and is a member of the Investments & Wealth Institute™. Steve is involved with fundraising efforts for the American Diabetes Association and JDRF. He enjoys skiing, golfing, traveling and coaching his sons' youth sports teams