



FORD
FOUNDATION

Transformative Capital

How mission-related investing
can deepen foundations' impact

*At its core, MRI investing
means we are putting
more of our money
where our mission is.*



ANNOUNCING THE FORD FOUNDATION'S MRI PROGRAM

“I no longer find it defensible to say that our investment strategy is only to maximize the value of our endowment—just as it’s no longer defensible for a corporation to say its only responsibility is to maximize shareholder value.”

—Darren Walker, Ford Foundation President

At Ford, we believe the next great tool of social transformation is Mission-Related Investments.

At its core, MRI investing means we are putting more of our money where our mission is. Until recently, Ford did what most philanthropies do: We spent five percent of our endowment annually on grantmaking to combat injustice and inequality and we left the remaining 95 percent in investments. While those investments ensured the long-term viability of our philanthropy, social impact was not explicitly part of the calculus.

Yet, upon reflection, this left too much untapped potential on the table. The fact is we won’t solve the big challenges without market mechanisms. Yes, markets can create inequalities, but we believe that they can also be harnessed to drive inclusive social outcomes and achieve strong returns at the same time.

So we decided that it was time to deliberately leverage the power of our endowment to further our mission. Specifically, this means we are committing to using eight percent of our core assets, or \$1 billion, for double bottom-line investing. We are looking for investments that have beneficial yields for society and still secure financial well-being. To take just some examples, we’ve allocated to funds that support affordable housing, financial inclusion and diversity in management.

There are many historical disincentives to participating in MRI investing. For starters, it wasn’t until very recently that the government made clear that MRIs are a legal form of foundation investing. More importantly, most not-for-profit boards are, understandably, concerned with their fiduciary duty to make sure their institutions can continue their work over time, which steers them away from uncharted territory.

To help overcome these legacy concerns, we will make results and lessons from our MRI program transparent in order to help the marketplace advance and mature. As part of that larger goal, the foundation will continue to make programmatic grants that enrich the evidence base and market standards for impact investing.

Our hope is that with more information, more foundations will find ways to tap into the power of their own endowments. If all U.S. foundations were to allocate eight percent of their assets to MRI investing, together we would have \$72 billion to pressure corporations to broaden their focus from shareholders to include all stakeholders. Think of how potent that could be.

THE FORD FOUNDATION'S
MRI JOURNEY

What are mission-related investments?

Since different foundations have different reasons for being, definitions of MRI are subjective and idiosyncratic. The Ford Foundation's mission is to advance social justice, with a focus on reducing inequality in all its forms. So our mission-related investments are dedicated to addressing both the causes and consequences of inequality.

With just \$1 billion in capital to deploy over ten years, our board thought it was important, at least initially, to narrow our focus to ensure effectiveness. Working with consultants Imprint, Tideline, and Veris, we conducted a broad scan of the impact investment market that fit our mission, our geographic footprint, and our staff's skill set and expertise. That initial screen generated over 30 possible investment themes. We winnowed that list down to two: affordable housing in the US and financial inclusion in the global south.

We recently approved two new investment themes: diversity in fund management, and quality job creation. And throughout the global south, we plan to conduct regional scans to identify opportunities in specific countries and regions.

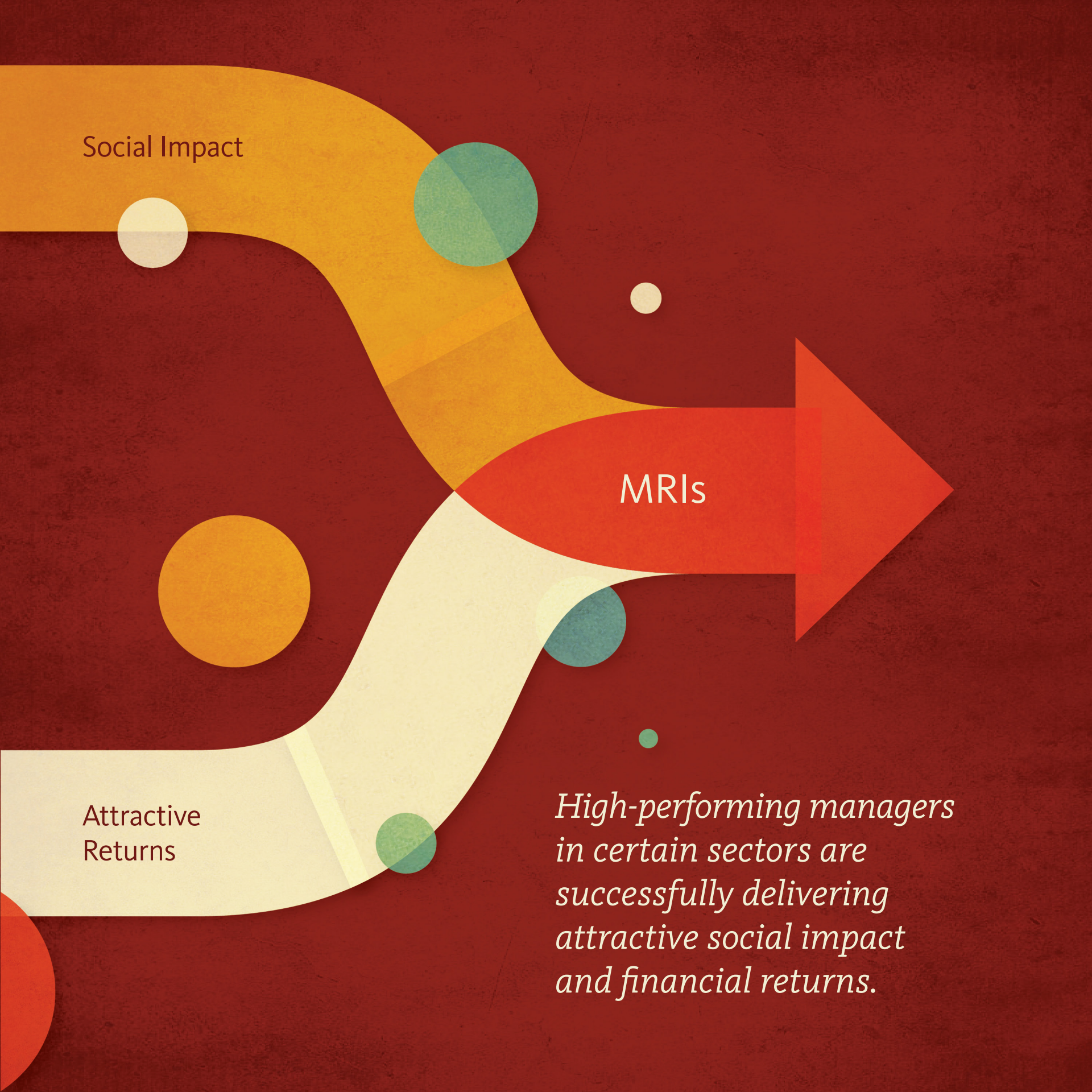
In line with our commitment to promoting diversity and inclusion, and as part of our traditional due diligence evaluation, we closely examine the makeup of all prospective fund management teams.

How did you persuade trustees that MRIs would not compromise the endowment's grant making and long-term sustainability?

The notion of diverting capital from traditional endowment activity toward double-bottom line activity speaks directly to a director's fiduciary duty to preserve a perpetual foundation. As such, the board debated this topic vigorously.

Although the impact investment market is relatively new, with limited performance data available, we knew that high-performing managers in certain sectors are successfully delivering attractive social impact and financial returns. We provided trustees with several case studies of impact investment opportunities that produced the financial returns sufficient to maintain an endowment's purchasing power.

Ultimately, the trustees felt that with strong underwriting guidelines and careful risk management, an MRI program of up to \$1 billion—approximately 8 percent of the foundation's total capital at the time of the approval—would not compromise our endowment's health and sustainability. We had explored a range of potential investment vehicles, from public equities to private equity, and were confident that we could source high-quality, financially competitive products that aligned with the foundation's mission.



Social Impact

MRIs

Attractive
Returns

*High-performing managers
in certain sectors are
successfully delivering
attractive social impact
and financial returns.*

What is the financial performance requirement for Ford Foundation MRIs?

Our Board of Trustees has not set a specific financial return target. Instead, the board's mandate for the MRI program is (i) to achieve a total return consistent with prudent risk while taking into account the relationship between particular investments and the foundation's charitable purposes, and (ii) to eventually contribute to foundation spending over time. Although the board has not set a minimum financial return target, staff recognizes that performance below the IRS-required spend rate plus inflation (7 percent today) will create an added burden on our CIO to generate excess returns elsewhere. Thus, without being a formal requirement, the 7 percent hurdle rate is an important consideration in our portfolio construction.

The MRI program's purpose is to make investments that generate positive social returns and commercially appropriate risk-adjusted returns on capital. For high-impact investments in which we may not be fully compensated for the level of risk we assume, we will use program-related investment (PRI) capital.

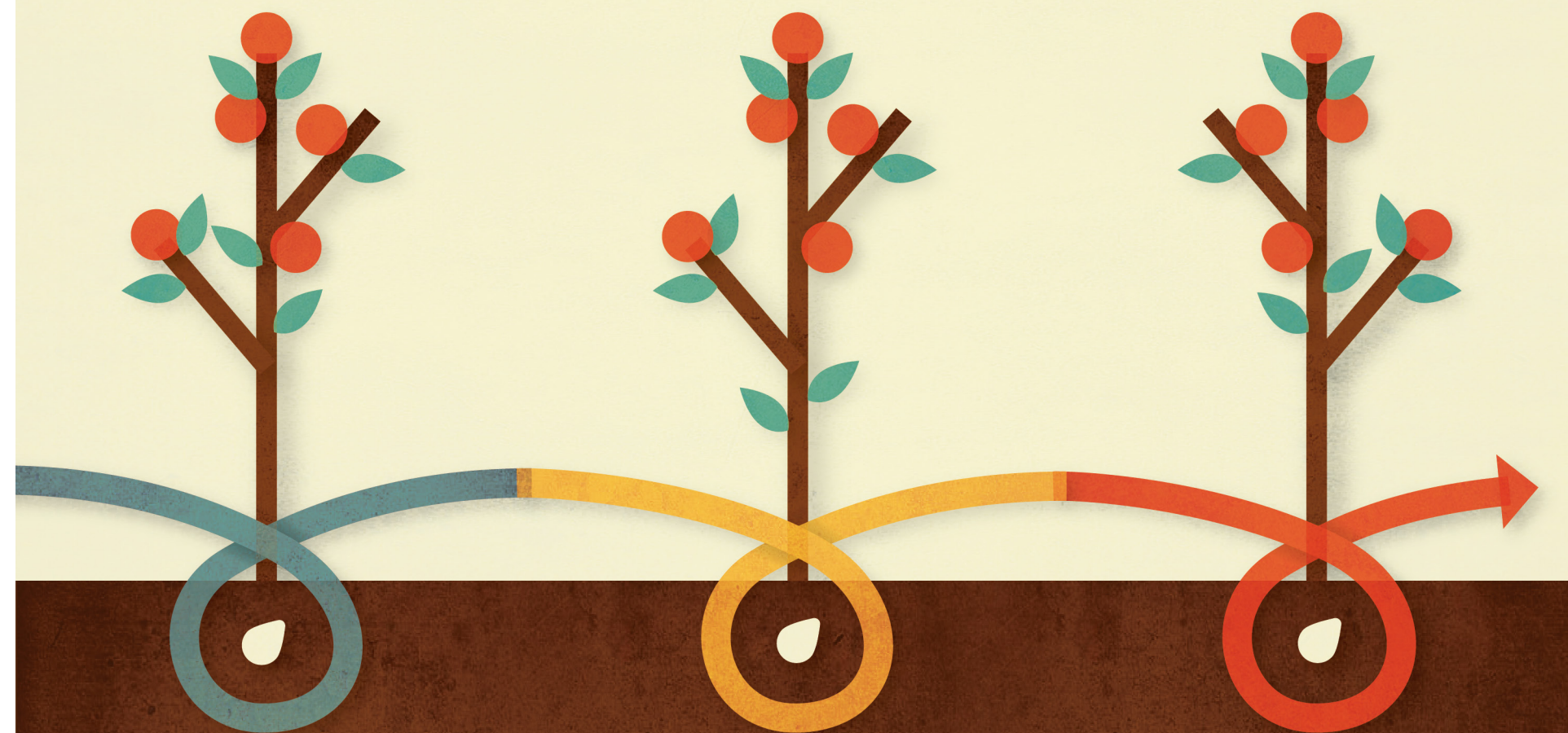
How do you measure MRIs' social impact?

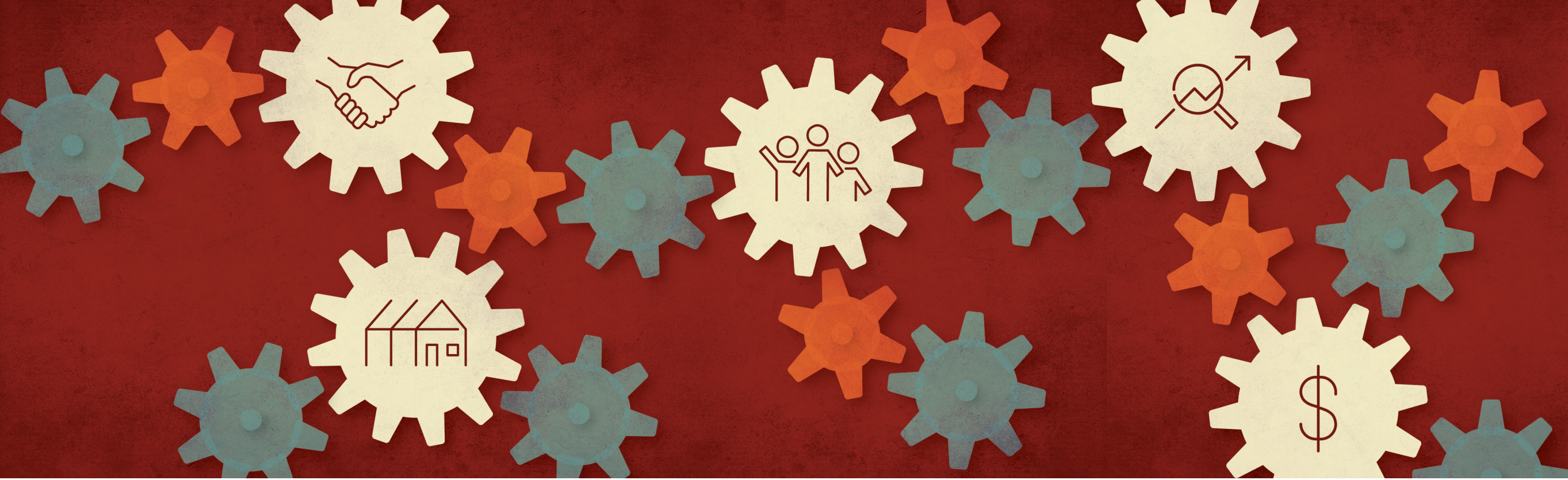
Impact can be measured in so many ways that dozens of metrics and benchmarks have been designed—enough to confuse potential investors. Our approach is to emphasize due diligence in selecting our fund managers, with the goal of choosing top managers whose priorities fit our own. If we make the right choices, our capital will help advance our social justice mission.

We expect fund managers to explain how their investments will make a positive social impact and report on how they achieve it, so we can track performance. Where we believe processes can be improved, we share best practices. We also evaluate our fund managers' ownership structure, investment committees, and staff for diversity, equity, and inclusion.

We are aware that taking a non-prescriptive approach, and relying on managers' integrity, introduces risk. We believe our due diligence is rigorous enough for us to move forward, and we will evaluate and adjust our approach as necessary over time.

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*The MRI portfolio has
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measurable social
returns.*

What asset classes are your MRIs in, and how have they performed to date?

Our board concluded that the private equity market offers the most effective way to achieve positive social impact and produce commercial financial returns, since we can work closely with fund managers who can drive impact directly through their portfolio companies and projects. We will continue to study ways we can make mission-related impact investments through other asset classes, like public equities.

The MRI portfolio has already generated measurable social returns. Since private equity funds invest over 10- to 12-year time horizons, financial performance may not be discernible until the end of that period. However, because a significant portion of our portfolio is in funds that invest in affordable housing opportunities, which generate cash flow, some of our investments have already yielded cash returns.

Are your MRIs managed in-house or outsourced?

We decided to form an in-house team for MRI, a structure that allows the foundation to control manager diligence and provides greater assurance that investments align with our values. The foundation’s existing program-related investment (PRI) initiative enabled this decision, as it includes an experienced investment team and a back-office infrastructure—in place for decades—supporting both the PRI fund and the traditional endowment. In fact, the PRI team initially constituted the MRI team; a new director was hired in January 2018.

How is the MRI program staffed, and what governance and compliance structures have you put in place?

The core Mission Investments team is part of the foundation’s program strategy, and manages all MRI and PRI activity. The team includes four investment professionals, a senior program officer—who does grant-making to build the field—and one professional dedicated to portfolio management. Team members’ backgrounds include investments, corporate finance, investment banking, law, general management, SEC reporting, information technology, and real estate.

We have established a new board committee that enforces tight risk management guardrails for MRI activities and approves all investments. The MRI Committee also monitors social and financial returns performance, and it has set criteria, including trigger events, that allow it to suspend MRI investment activity if the foundation’s objectives are not met, or if material adverse conditions affect our overall endowment.

Our investment strategies

AFFORDABLE HOUSING

Millions of low-income families in the United States struggle to make rent payments, and live in communities cut off from opportunity. Given the potential for positive impact on low- and middle-income families—and the consistent financial returns associated with affordable rental housing, even in market downturns—we seek to invest with fund managers that are focused on preserving quality affordable rental housing in communities of opportunity.



DIVERSE MANAGERS

Equitable access to capital is key to an inclusive economy. And while the asset management industry wields tremendous influence over that economy, its professionals don't reflect the gender, ethnic, or racial diversity of the world around them. We invest in diverse fund managers because we expect doing so will lead to better investment outcomes—encouraging these managers to become high impact donors in their communities, and encouraging the field to hire and invest in diverse professionals and business owners.



FINANCIAL INCLUSION

Access to convenient, affordable, and appropriate financial services is fundamental to economic prosperity. Yet billions of people around the world are not served, or are underserved, by traditional financial providers. We seek to invest in fund managers that can identify and scale companies that have developed sustainable business models to advance financial inclusion, often through the use of technology.



QUALITY JOBS

The opportunity for decent work and fair reward is essential to reducing inequality. Technological advances and globalization have led to lower wages, fewer benefits, and minimal opportunities for upward mobility. Enlightened companies recognize that meaningful human capital investment is required to reap the productivity and profitability benefits of superior operational design. We seek to invest in private equity firms whose portfolio companies emphasize workers and their wellbeing, and treat employees as assets to invest in rather than expenses to minimize—with the goal of improving both job quality and bottom-line performance.



AT-A-GLANCE

MRI at the Ford Foundation

In 2017, the Ford Foundation committed to invest up to **\$1 billion** of its **\$12.4 billion** endowment to mission-related investments over the next 10 years.

An in-house team manages all MRI and PRI activity, includes four investment professionals, a senior program officer, and one professional dedicated to portfolio management.

A designated board committtee enforces tight risk management guardrails for MRI activities and approves all investments.

As of June 30, 2019, the foundation has approved **\$129 million** of MRI investments, allocated to ten funds—representing one percent of the foundation's total endowment, and **12.9 percent** of the **\$1 billion** commitments to MRIs.

MRI impact
Affordable housing

54
properties

13,350
units of housing

10,013
units of affordable and
workforce housing

MRI diversity
Fund ownership

Ford's MRIs exceed traditional funds in terms of the % of funds with women and racial minority ownership.

REAL ESTATE PORTFOLIO
Racial minority ownership

2.2%
Traditional market

60%
Ford MRI

Female ownership

1.8%
Traditional market

40%
Ford MRI

PRIVATE EQUITY
Racial minority ownership

3.9%
Traditional market

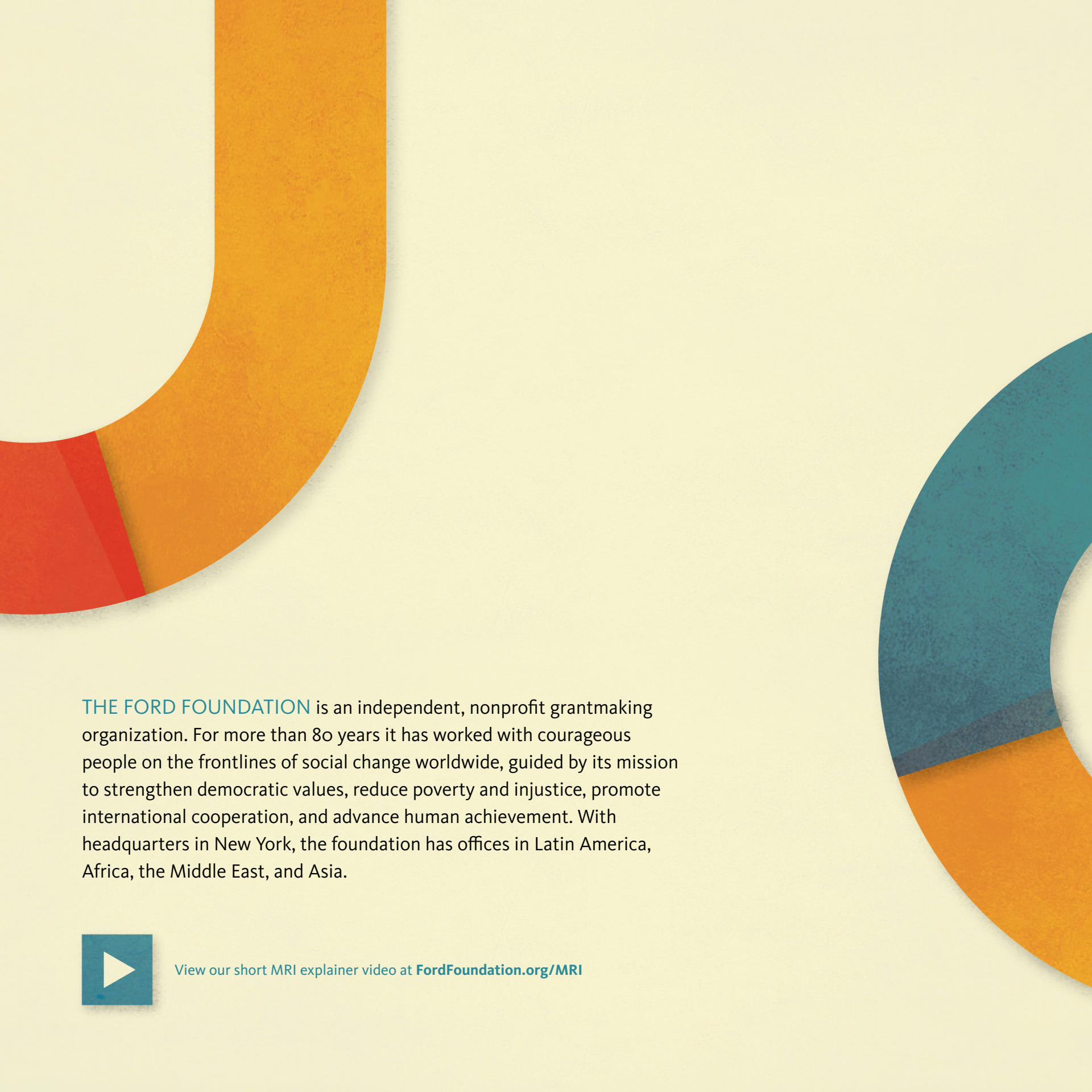
100%
Ford MRI

Female ownership

5.2%
Traditional market

40%
Ford MRI

Source: 2018 Diverse Asset Management Firm Assessment, Bella Private Markets. knight.app.box.com/s/5l2s2pi75b6qoip5uo47zsiawk133vud
Ford also used this methodology to review our portfolio; we consider firms women-owned or minority-owned if at least 25 percent of the firm ownership is held by women or racial minorities.



THE FORD FOUNDATION is an independent, nonprofit grantmaking organization. For more than 80 years it has worked with courageous people on the frontlines of social change worldwide, guided by its mission to strengthen democratic values, reduce poverty and injustice, promote international cooperation, and advance human achievement. With headquarters in New York, the foundation has offices in Latin America, Africa, the Middle East, and Asia.



View our short MRI explainer video at FordFoundation.org/MRI