

Local Investing Frequently Asked Questions

For Private Foundation Committees and Boards

What is local impact investing?

Local impact investments are investments made into local companies, organizations, and funds with the intention of generating measurable community benefit alongside financial returns. Many local impact investments are made at rates of return that prioritize community impact.

Why are foundations doing this?

There is a gap between the need for capital and what the private market will provide. Philanthropic dollars are well positioned fill that gap in a way that considers equitable access and impact, social and financial return, and flexible terms that the private market may not consider without incentive.

Where does money for local impact investing come from?

More and more private foundations are establishing local impact investing programs using assets from their investment portfolio. A common practice is to allocate 4-7% of endowed assets to local impact investments.

What is the process for deciding on an investment?

It is often the responsibility of foundation staff to solicit investments, conduct preliminary due diligence, and refer promising opportunities to a board committee responsible for overseeing the local impact investing program, including both its financial and impact components. If deemed appropriate, third-party consultants are sometimes contracted to provide additional diligence and strategies to mitigate risk. The committee then makes recommendations on investment decisions to the entire board.

How do foundations manage risk?

Foundations, often in partnership with third-party consultants, conduct due diligence or underwriting on investments to identify and document risks and suggest risk mitigation strategies. As with any contract arrangement, foundations engaged in local investing have professional advisors review documents, transactions, agreements, and legal structures.





What type of investments do foundations make?

Impact investments can be as simple as purchasing a certificate of deposit at a community bank that, in turn, supports lending in under-served communities. Or they can be as complex as an equity investment in a start-up company developing new technology to address a social or environment challenge. To create measurable impacts, foundations often choose to invest where other market-rate capital is unavailable to investees, understanding that not all community investment situations will benefit from an impact investment that must be repaid. A critical part of any foundation local investment strategy is to identify potential areas of impact aligned with mission.

Do these programs put us in competition with banks or other capital providers?

Foundation programs often target local investments that would not happen but for the foundation's capital. As such, local banks and other financial intermediaries will be looked to as partners and not competitors. If a local bank can meet the capital needs of a community investment without foundation engagement, that's a win for the community.

What do staff need to do?

Foundation staff assist board members in navigating this new approach to investing beginning with the establishment of a board committee responsible for overseeing the development and implementation of a local impact investing program. Foundation staff provide ongoing training on upholding fiduciary duty and engage appropriate advisors to ensure the impact investing program is consistent with relevant state and federal law. Once the program is established, staff will typically solicit investments, conduct preliminary due diligence, refer promising opportunities to a newly established board committee, and service the investments once deployed.

How does local investing relate to fiduciary duty?

Incorporating impact criteria into investment analysis can be consistent with fiduciary responsibilities, provided it is aligned to organizational mission. Trustees and directors of nonprofit organizations such as private foundations may adopt investment policies that require the managers to invest to maximize financial returns or may choose to adopt a policy that permits or requires the managers to select investments that seek attractive financial returns and further the organization's charitable purposes. It is important to consult with a local attorney to make sure any proposed program design is consistent with legal and compliance requirements.