MISSION INVESTORS EXCHANGE ANNUAL CONFERENCE

Opening Remarks
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Introduction

Thank you for such a kind introduction.

I'm delighted to be here and excited to join Darren, Julie, and Jean momentarily for what will be an informative and – knowing my colleagues – provocative discussion on the case for, and state of, impact investing.

We're all here today because of a shared commitment to change the path of opportunity for too many people for whom traditional markets haven't delivered – who have been pushed to the social, economic, and political margins of society. That's a very big aspiration – and has been pursued by so many in this room with deep resolve and consummate skill over an extended period. But the complexities and magnitude of the challenges we confront – whether poverty and income disparities, a changing climate, or the enduring intractability of structural racism – far outstrip the capacity of our assets as traditionally deployed to move the needle of progress in any meaningful and enduring way.

There seems little question that philanthropy of every shape and size has to cut away from the safe and secure moorings of conventional charitable grantmaking practice to navigate into waters that carry higher aspiration, but also higher uncertainty, complexity, and risk. That requires framing our objectives and strategies with crystalline clarity. . . . Equipping ourselves with a broader spectrum of tools and capacities specifically tailored to those objectives.

I wanted to take a few moments to describe how we at Kresge have approached doing that. I'll talk not so much about the *why* of impact investing – I think our panel will explore that far more insightfully than I can – than about the *how*. I want to suggest four preconditions that we at Kresge have concluded need to be in place for our social impact practice to flourish. Forgive me if each strikes you as obvious. But their collective operationalization has been anything but simple, and their implications for my institution have been profound.

I.
The First Precondition: Leadership

The first precondition is leadership.

The people at the top – your Trustees, your financial team, and particularly your presidents and CEOs – need to embrace and articulate forcefully the case for using all the tools in the philanthropic toolbox. It takes that kind of clear signaling to move entities that have long self-identified as grantmakers toward philanthropic ambidextrousness – the ability to adeptly use both grants *and* investments.

The field has long understood that grantmaking occurred along a spectrum – that we could use grants not only to support a particular organization, but also to strengthen nonprofit networks, build knowledge through commissioned research, support public advocacy, and countless other activities.

It is only a conceptual half-step to add social investments to that spectrum. There is now ample evidence that loans, guarantees, equity investments, linked deposits, and other social investment instruments can combine in countless variations to unlock possible solution sets that grants alone simply cannot.

But a conceptual half-step is not the same as an operational full-step.

We were fortunate to be propelled in that direction by one of our trustees. In 2008, Jim Bildner urged us to pilot PRI's by making a series of modest loans to nonprofits to help them bridge to the other side of the recession. That some of them worked and some of them didn't was less important than the intellectual and political bush-whacking this represented. He cleared a path of safe passage for the staff.

And our senior staff did, in fact, take that path – our CFO Amy Coleman, our CIO Rob Manilla, and our Vice President of Program Ari Simon each got on the bus and proceeded to convince their team members that they needed to as well. It was exemplary executive leadership.

II.
The Second Precondition: Cultural Readiness

The second precondition is cultural readiness.

The adage that "Culture trumps strategy" is true with a vengeance in the realm of social investments. Introduce a foreign object into a grantmaking monoculture and chances are pretty good that the anti-bodies will reject it forthwith.

And make no mistake, social investments *are* a foreign object, not just a variant of existing culture. They require that capital be configured in unfamiliar ways. They implicate exacting due diligence, employ annoyingly technocratic language, and take longer to nurse to fruition. All of this necessitating very different skill sets.

Creating an updraft of social investments at Kresge accordingly required a very purposeful, carefully curated acculturalization process. We had to demonstrate that the introduction of social investments was not a zero-sum game – that rather than diminishing the resources available for grantmaking, social investments augmented the resources available to our program teams.

First, we insisted that a social investment had to advance directly the objectives of our program teams. It wasn't enough that a PRI stretched creative boundaries or that a guarantee enabled the realization of a generalized social good. These tools instead had to be indistinguishable in their purpose from our grantmaking.

Second, and in a related vein, we elevated the idea of a capital diagnostic. We proposed starting with a problem, then asking how the absence of capital flows contributed to that problem and what combination of capital types would open up those flows.

Third, we initially placed our social investments on top of our grantmaking budget. As we gradually created ever-more compelling proof points of how social investments could be inter-braided with grants, we would feather both types of dollars into a unified budget.

Fourth, we sought to hire on both the program and social investments sides people who could meet in the middle. That meant social investment folks with grounding in program expertise, and program folks with the ability to assess capital needs.

And fifth, we worked the soft tissue of attitude change by talking, talking, and talking. It drove Kimberlee Cornett absolutely crazy. But we needed an extended and respectful re-education campaign for really smart, dedicated program staff, who had been encouraged to pivot to a new way of working, but who needed to own that pivot themselves.

III.
The Third Precondition: Operations

The third precondition is recalibration of internal operations.

Several years ago, we were closing a New Market Tax Credit deal as part of a $100 million effort with LISC and Morgan Stanley to integrate affordable housing and community-based health clinics. As is typical of New Market deals, there was a flurry of activity at the finish line, causing the closing date to be moved. The problem was that the foundation only processed payments twice a month, and this closing was happening on neither of those dates. The borrower actually provided a bridge to solve the problem, but it underscored the necessity of retooling the gear-works of our grantmaking machinery in order to accommodate other ways of moving money.

We needed to get a dozen of these kinds of mismatches worked out before we landed on protocols that ensured that our grants management, cash monitoring, and financial back-office systems were all in synch with the evolving needs of the social investments practice.

IV.
The Fourth Precondition: Communications

The fourth precondition is communicating your new normal.

People tend to ask you for what they think you have. So it took some time for the word to get out that we had the internal horsepower to digest some fairly complex transactions.

And my suspicion is that this need for clarity has only been heightened with our commitment last fall to deploy $350 million for social investing by 2020.

- That commitment will include deals customized to program strategies in the very different markets of health, climate change, higher education, community development, arts and culture, and human services.
- It will likely encompass efforts to blend different capital channels into mixed-used, transit-friendly, environmentally-sustainable projects in low-income communities.
- And, perhaps most in need of explanation, the commitment will likely include up to a $100 million of guarantees – an underutilized tool.

V.
Mission Related Investing

These preconditions take on even greater weight as they become the predicate for a reasoned conversation about an issue that will likely consume considerable attention at the conference: Mission Related Investments.

Of Kresge's $350 million commitment, $50 million is allocated from the corpus for MRIs. But we've tussled over what, exactly, an MRI is.

It's tempting to ignore linguistic legerdemain and simply label as an MRI any investment from the corpus that advances some form of social good. But that struck us as inconsistent with the intentionality with which we've tried to approach social investments. So let me try the following on you.

We've landed on a construct in which potential MRI's fall into three concentric circles.

- In the inside circle – or the bulls-eye of the target – are investments from our corpus that both meet the investment team's return targets and are tightly aligned with the Foundation's specific program strategies;
- In the middle circle are investments that touch low-income opportunity in cities – Kresge's North Star – but that the program teams would not have chosen to include within their portfolios;
- And in the outermost circle are investments that don't relate to our program priorities, but are nevertheless investments applying sound ESG criteria.

For our own purposes, we classify as MRI's only the first group – those in the bulls-eye. These are investments we pursue to advance our strategic goals – where we believe that investing with market-rate capital can position us as a "full continuum" impact investor.

Conclusion

I hesitated to open such an ambitious conference with a discussion of mechanics. But I hope it suggests that the *how* of our work is every bit as important as the *what*. We are all, at heart, problem-solvers – and problem-solving implicates selecting the right tools for the job. Each of those tools comes with a slightly different owner's manual. I hope the manual we've begun to write at Kresge is helpful to you. I very much look forward to hearing about your own experiences.

Thanks for listening. I hope you enjoy the conference.