

## Mission Investing Program Overview

The central goal of the Packard Foundation’s Mission Investing Program is to be a flexible source of loan and investment capital to achieve the biggest impact possible towards the Foundation’s priorities and programmatic strategies. We seek to be catalytic with our Mission Investments (MIs), and we believe that the right type of investment can change the course of an organization and its ability to achieve its mission at scale.

The Packard Foundation has a long and diverse history of making mission investments. Started in 1980, our MI Program is one of the longest running, largest and most active in the country. The program, which operates as a fixed \$250 million carve-out from the Foundation’s endowment, has generated more than 295 mission investments totaling more than \$815 million to date.

### Mission Investing Strategic Approach

To achieve maximum impact in support of the Foundation’s grantmaking programs over the long-term, the MI Program prioritizes programmatically aligned impacts, as evaluated by the Foundation’s program officers who are specific-sector and impact experts. The Foundation also seeks to preserve the value of its MI capital over the long-term for future opportunities.

Within the spectrum of impact investors, the Packard Foundation is a strongly “impact-first” investor. Our goal is to focus our MI resources on impacts that are deeply aligned with our programmatic priorities and well beyond what the market would do otherwise. We take risks in pursuit of impact while seeking overall return of principal, so we can recycle capital to maximize impacts over the long-term. When we encounter tradeoffs between financial returns and depth of impact, we choose impact. The high-risk portion of our portfolio is reserved for the most programmatically aligned opportunities.

We are flexible in how our MIs are structured—typically as loans and equity investments—and we work with both for-profit and nonprofit investees, tailoring our capital to have the most impact within our financial investment parameters of long-term capital preservation. We do not seek financial returns for their own sake, although we do take higher returns if it is the best way to achieve impact, such as with closer-to-market interventions.

Our MIs support transformational impacts and innovation that help our partners grow into financially sustainable organizations and borrowers in a number of important ways:

- As a bridge to fundraising efforts and future revenues.
- To help organizations seize time-sensitive opportunities or tackle large-scale projects.
- To attract new sources of private capital.
- To scale their efforts for maximum impact.

Our MI program makes both Program-Related Investments (PRIs) and Mission-Related Investments (MRIs), offering a flexible range of tools to achieve impact. Given our deliberate impact-first approach

and lack of profit motivation, the great majority of our loans and equity investments to date have been classified by our legal counsel as PRIs under Internal Revenue Service code. But, as the impact investing industry continues to evolve, we remain agnostic and flexible on which structure (PRI or MRI) is best in each case.

## Process for New Mission Investments

Because we are an impact-first investor, potential new investment opportunities are vetted, first and foremost, for fit with the Foundation's programmatic strategies and priorities. Programmatic fit helps determine "go/no-go" on potential new MIs, but the degree of programmatic alignment also influences the possible loan or investment structure. For example, PRIs that are the most highly aligned programmatically can be structured to take on more risk, provide greater dollar amounts, or have longer terms. Packard Foundation staff recommend and structure new MIs (including terms of proposed loans and equity investments), while the Foundation's Board holds final approval authority through its quarterly meetings.

## Current Trends and Future Directions

Our MI program has evolved and adapted over the years, especially in the past decade as the broader impact investing industry around us has dramatically grown and diversified. The evolution of our MI program has encompassed different types of investing that have been developed over time:

- **Nonprofit bridge loans:** In our initial mission-investing work, the primary type of intervention we provided was bridge loans for grantees and other nonprofit organizations, especially for real estate projects. These relatively simple nonprofit bridge loans continue to be about 45% of our overall portfolio. Examples include land preservation and restoration projects, and a variety of nonprofit facilities, such as education centers, reproductive health clinics, health service centers, food banks, shelters, and arts venues.
- **Market-facing investments:** An increasing portion of our portfolio is now dedicated to providing growth capital to accelerate market-facing partners and innovations that address market failures or attract private capital to our core programmatic priorities. Our most effective role is typically at the inflection point within a market development S-curve – after grants and equity have supported the creation of a viable business plan, but before these venture and fund partners have achieved the scale and profitability to achieve market-rate capital. Examples include loans and equity investments for ventures or companies, entrepreneurial nonprofit partners, investment fund managers, and financing intermediaries that are proving out new business models and bringing sources of private capital to our programmatic priorities. Although these market-facing investments were exceptions in our early years, they have grown to now represent approximately 40% of our MI portfolio. Typically higher-risk and more staff-intensive, these market interventions are reserved for opportunities that are most closely aligned with our core grantmaking priorities.
- **Working through collaboratives:** More recently, our MI program is increasingly working through investment collaboratives and intermediaries to further accelerate the impact of our MI capital. The first of these pilots, Terra Silva, was designed through a collaborative process led by the Packard Foundation. Launched in 2019, Terra Silva made available \$90 million in new blended

debt and equity capital to promote innovations and accelerate more deeply sustainable and climate-smart practices within the tropical forestry sector.

## DEFINITIONS

**Program-Related Investments (PRIs)** are defined by the Internal Revenue Code as loans or investments made by a private foundation having a charitable purpose and without a significant profit motivation. The PRI net outflow (i.e. the net annual difference between fundings and repayments) is included on our Foundation tax return as payout. Most of our MIs to date have been legally qualified as PRIs.

**Mission-Related Investments (MRIs)** are impact-oriented but with a profit motivation that is considered market-rate with less strict charitable impact requirements. This is a definition of exclusion (i.e., any of our investments that do not legally qualify as a PRI would be an MRI). We made our first MRI in 2019.

**“Mission investments” (MIs)** is an over-arching term that include both PRIs and MRIs made by philanthropies to serve their programmatic goals. We use the MI term to signal our flexibility and agnosticism in using whichever tool – PRI or MRI – can best achieve impact in a given situation.

**“Impact investments”** is an even broader category that includes the full range of investors in addition to philanthropy (including private/commercial and public/government investors) making investments with a broader set of impact goals (with varying definitions). We are an impact-first mission investor within this much broader tent of impact investors.