Making Mission Part of the Portfolio

Interest in impact investing continues to grow, but success requires more than finding the right opportunity. It requires strategy, governance, and a realistic understanding of whatâ??s possible.

In a recent episode of *Mission +Markets*, CAPTRUSTâ??s Heather Shanahan and James Ross joined Spectrum Impact Founder and CEO Rehana Nathoo to discuss how nonprofit organizations can pursue both financial returns and mission outcomes. One message stood out: Before making the first investment, organizations need to understand themselves.

What Is Impact Investing?

Impact investing refers to investments made with the intention of generating both financial returns and measurable social or environmental outcomes. Nathoo describes it as investments in companies, funds, or organizations that seek to produce â??not just financial returns, but then impact returnsâ?• as well.

For nonprofit organizations, this can create chances to support initiatives that align with their mission while still participating in investment markets. Examples may include affordable housing, community development, small-business growth, workforce development, renewable energy projects, or healthcare access initiatives.

Many nonprofits are hopping onboard. As Ross explained, organizations increasingly want â??95 or 96 percent of their money supporting mission,â?• not just the 4 or 5 percent distributed through grants.

A Common Misconception

One of the most common misconceptions is that impact investing requires organizations to choose between doing good and earning a return.

Boards might initially view impact investing as a tradeoffâ??one where they either generate impact or generate investment returns. But the reality is more nuanced.

Like any investment strategy, impact investing involves evaluating risk, return objectives, liquidity requirements, and long-term portfolio goals. Some investments may offer market-rate returns. Others may involve compromises that organizations intentionally accept because they support a specific mission objective. The key is establishing clear expectations before capital is deployed.

As Nathoo explains, successful impact investors spend significant time understanding their goals, constraints, risk tolerance, liquidity needs, and definitions of success before evaluating specific opportunities.

Before Investing, Know What Success Looks Like

Many boards are intrigued by impact investing but struggle to move from curiosity to implementation. According to Nathoo, organizations considering an impact investing strategy should focus on three foundational elements:

- A willingness to learn
- Dedicated resources and leadership support
- Patience for long-term results

â??If this was possible easily,â?• Nathoo says, â??impact investing would be all investing.â?•

Unlike traditional investments that may be evaluated largely on financial metrics, impact investments often require organizations to measure both financial performance and mission outcomes over time.

Results may not be immediate, and some initiatives may take years to demonstrate impact. For nonprofits accustomed to annual grant cycles or shorter board terms, that can require a different mindset.

Strategy Over Individual Investment

When organizations first explore impact investing, the conversation often centers on finding the right opportunity. Ross argues that approach can be risky. Instead, nonprofit leaders should first focus on developing a clear framework for how impact investments will support their mission. That means defining goals, identifying acceptable levels of risk and liquidity constraints, determining how success will be measured, and establishing a governance process for evaluating opportunities.

â??Itâ??s the strategy that protects you in both cases, in the upturns and the downswings,â?• Ross says.

A well-defined goal helps organizations assess investments consistently, align decisions with their mission and financial objectives, and stay on course when leadership, market conditions, or individual opportunities change.

Place-Based Investing: Opportunity and Complexity

For community foundations and organizations with deep local ties, *place-based investing* can be especially appealing.

â??The place-based approach is basically saying, â??Weâ??d like to have our cake and eat it too, but weâ??d specifically like to do it in the communities that we serve,â??â?• says Nathoo.

The challenge, however, is that narrowing the investment universe also narrows the pool of opportunities. In many communities, organizations may need to help build the local ecosystem before meaningful investments emerge.

Grants and Investments Shouldnâ??t Operate in Separate Silos

Nonprofits donâ??t have to choose between grantmaking and impact investing. In fact, the two can work well together.

Nathoo notes that many foundations forget that grants are often their greatest asset and source of expertise. Grantmaking can help strengthen ecosystems, build organizational capacity, and create the conditions necessary for future investments to succeed.

For example, a foundation focused on affordable housing might use grants to support community organizations, technical assistance providers, or early-stage development efforts. Over time, those investments can help create a stronger pipeline of projects capable of attracting mission-aligned investment capital.

Rather than viewing grants and investments as separate activities, nonprofit leaders may find greater success when they treat them as complementary tools working toward the same mission.

Looking Ahead

There is no one-size-fits-all approach. The most successful efforts tend to begin with clear goals, a well-defined strategy, and a realistic understanding of the trade-offs involved. For nonprofit leaders willing to take that first step, impact investing offers an opportunity to put more capital to work in service of the mission they already champion every day.

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