



CALIFORNIA HEALTHCARE FOUNDATION

MISSION INVESTORS EXCHANGE



## On a Mission: Investing for US Health Impact in 2014

Snapshot

June 2015

# Introduction

**M**ission investing has been gaining attention in philanthropic circles as a way to leverage capital and develop partnerships with mission-focused enterprises — both for-profit and nonprofit.

This survey of US-based investors examines mission investing in domestic health. The survey was not comprehensive of all mission investors, but it was intended to encourage participation in ongoing data-gathering efforts. Participating organizations included foundations and other social investors that have a domestic health impact focus.

*On a Mission: Investing for US Health Impact in 2014* provides an overview of mission investing in domestic health in 2014: participating organizations, areas of investment, dollars invested, profit status of investees, and most commonly used investment vehicles. The report describes specific investments made in 2014 and offers examples of innovative investment strategies.

Key findings:

- The survey identified 16 organizations that made health impact investments in 2014 totaling more than \$120 million.
- Debt was the most commonly used investment vehicle (68% of all investments), although nearly half of respondents used multiple investment vehicles to support their investees.
- Respondents invested across a range of health areas. More than two-thirds (69%) made investments in the care delivery system, 57% invested in social determinants of health, and 44% made investments in health and wellness.
- More respondents invested in nonprofit groups than in for-profit organizations. These nonprofit investments represented 66% of total investment dollars.

The California HealthCare Foundation partnered with the Mission Investors Exchange to conduct this survey.

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# Impact Investing Defined

**Impact investments** are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

**Health impact investments** are designed to improve population health status or health care.

This survey focused on three health impact strategies:

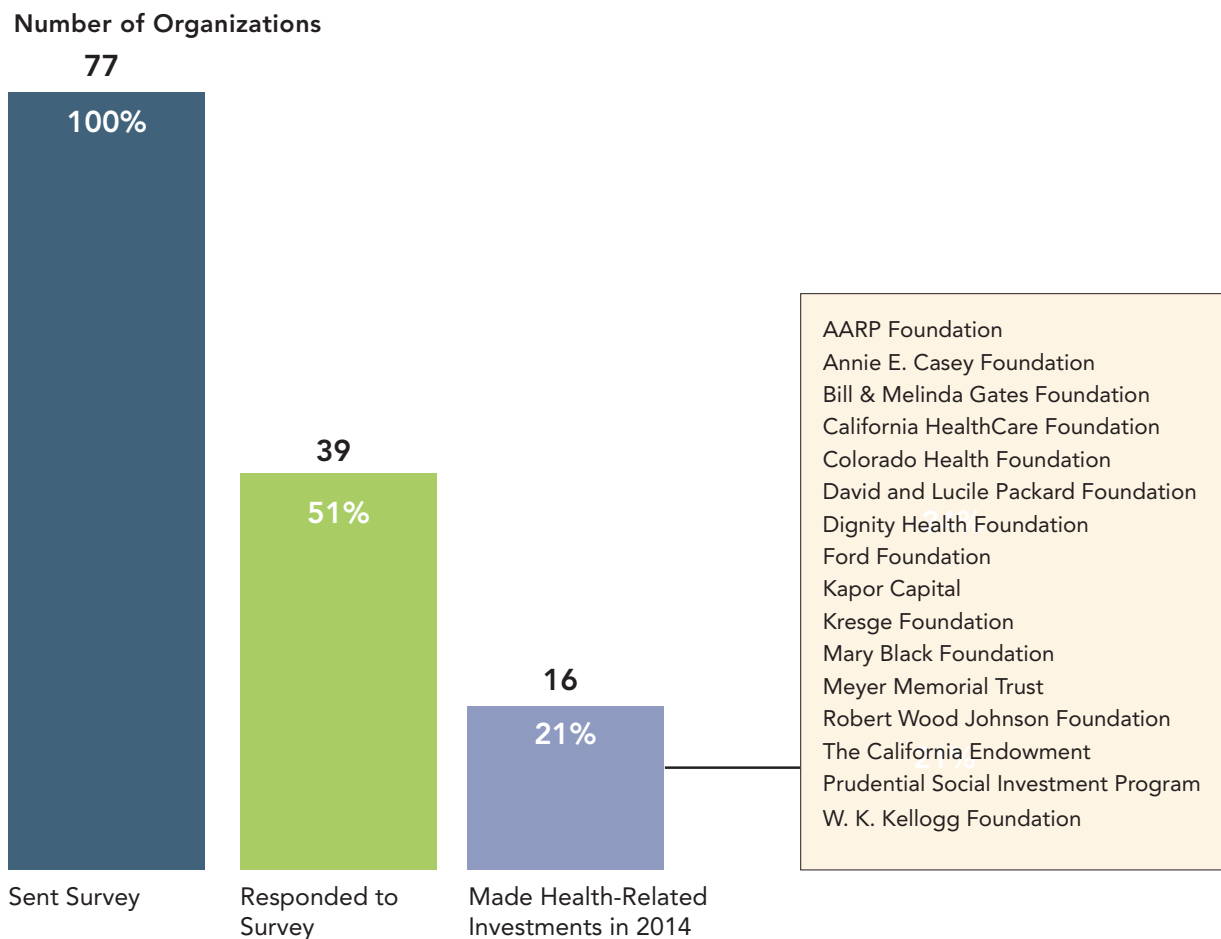
- **Care Delivery System:** These investments seek to improve the health care system by reducing costs, increasing access, or strengthening the performance of care providers.
- **Wellness and Healthy Lifestyles:** These investments aim to improve the health and well-being of individuals through behavior change, provision of healthy food or needed medicine, or other individual-level interventions.
- **Environmental and Social Determinants of Health:** The goal of these investments is to improve the environmental and social factors that impact population health, including air pollution, housing, and transportation.

## Overview

Impact investors are supporting the missions of organizations through investments that are intended to have a positive social impact as well as a financial return.

Source: Global Impact Investing Network's definition ([www.thegiin.org/cgi-bin/iowa/investing/index.html](http://www.thegiin.org/cgi-bin/iowa/investing/index.html)).

# Organizations Responding to Health Impact Investing Survey, 2014

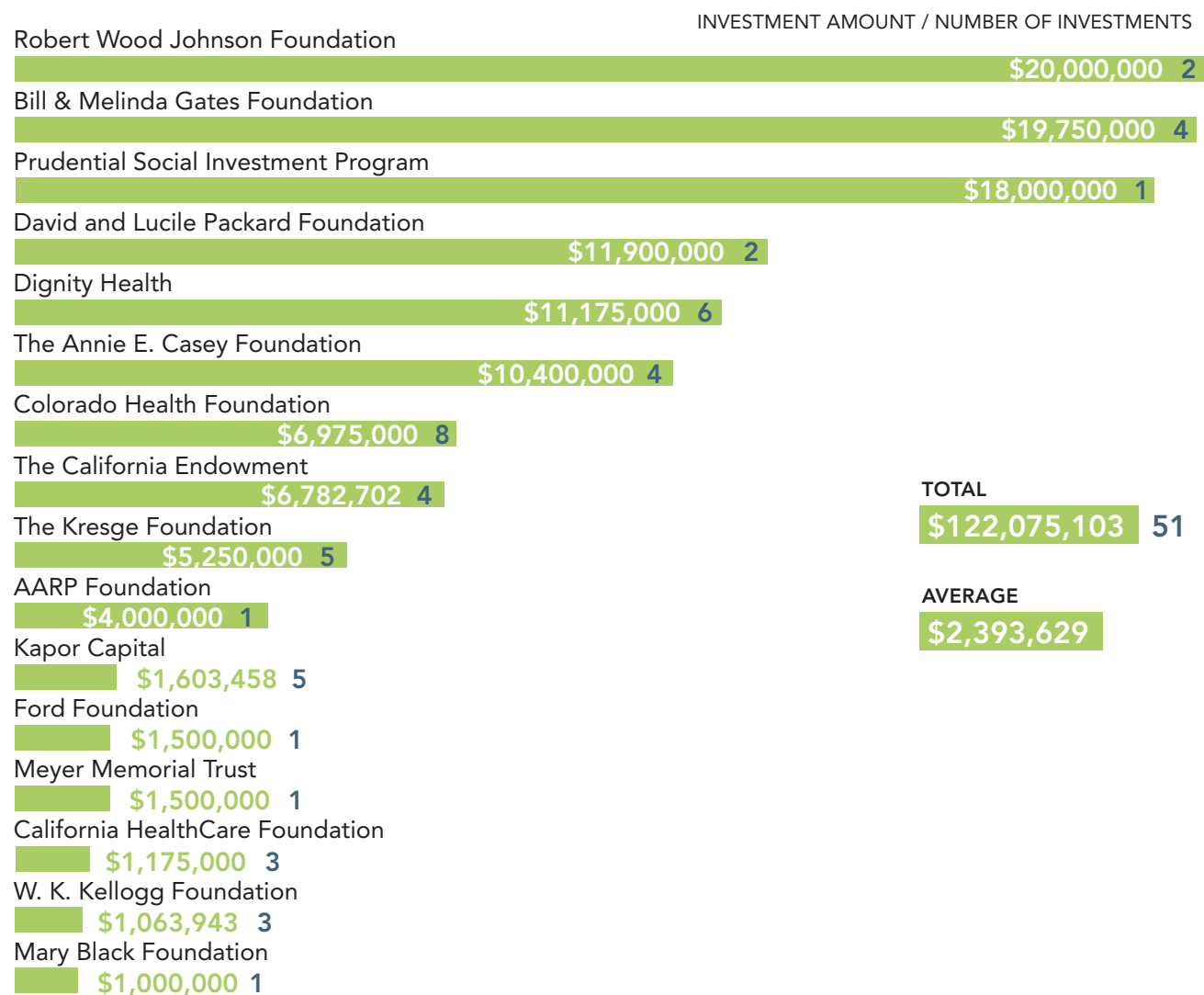


## Overview

The survey was sent to organizations known to invest in funds or enterprises seeking to impact US health with source capital (limited partnerships were excluded). The survey was sent to 77 organizations through the California HealthCare Foundation and Mission Investors Exchange networks. Sixteen of the 39 organizations that responded to the survey reported making a health impact investment in 2014.

Source: CHCF Survey, 2015.

# Organizations Making Health Impact Investments by Dollar Amount, 2014



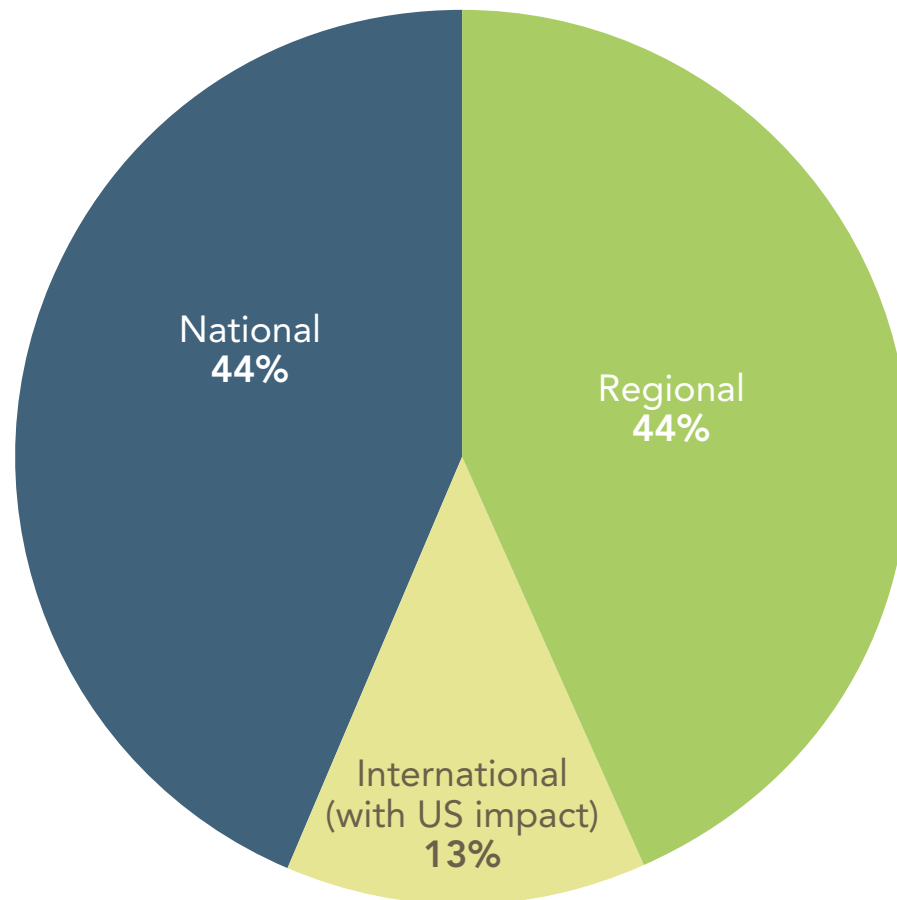
Source: CHCF Survey, 2015.

## Overview

Sixteen respondents made a total of more than \$122 million in health impact investments in 2014. The average investment amount was approximately \$2.4 million.

# Geographic Focus of Health Impact Investments, 2014

NUMBER OF INVESTORS: 16



## Impact Investments

Most organizations making US health impact investments in 2014 focused their activities either nationally (44%) or regionally within the US (44%). Two organizations made investments that have the potential to positively impact US and international health — the Bill & Melinda Gates Foundation (HIV and malaria drug development) and Prudential's Social Impact Program (UNICEF US).

Note: Percentages may not add to 100% due to rounding.

Source: CHCF Survey, 2015.

# Investment Strategy: Program- vs. Mission-Related, 2014

## By Number of Investors

Total: 16

Mission-Related Investments (MRI) Only

13%

Program-Related Investments (PRI) Only

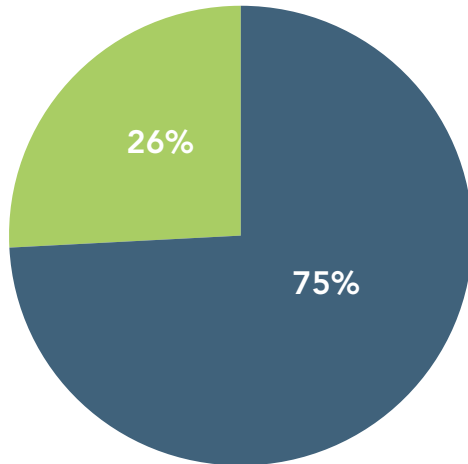
69%

Both MRI and PRI

19%

## By Number of Investments

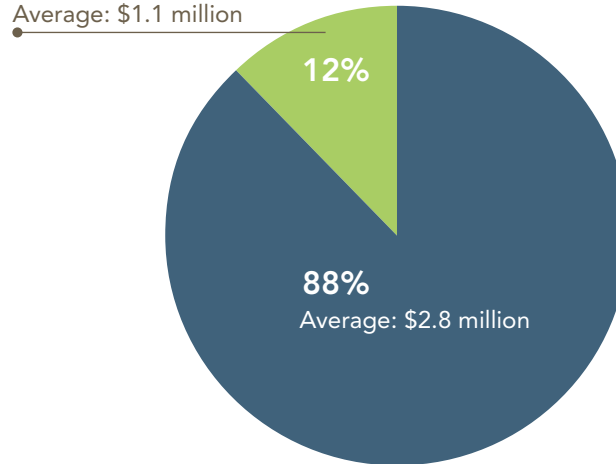
Total: 51



## By Dollars Invested

Total: \$122,075,103

Average: \$1.1 million



## Impact Investments

Of the respondents that made health impact investments in 2014, 69% made only PRIs, which come out of grantmaking or program funds to generate specific outcomes but are not expected to produce a market rate of return. Fewer respondents (13%) made only MRIs, which are made from foundations' endowments and have a specified mission impact and return profile. Nineteen percent of respondents made both PRI and MRI investments.

Note: For detailed definitions of MRI and PRI, see Appendix A and the Mission Investors Exchange website ([www.missioninvestors.org](http://www.missioninvestors.org)).

Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.

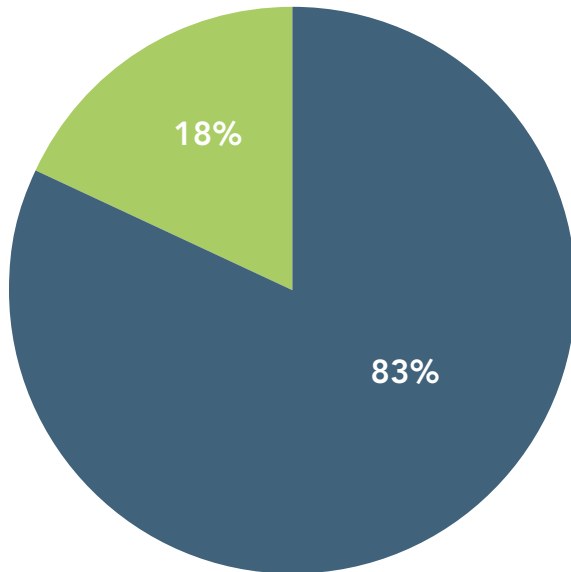
# Investment Mechanism: Direct vs. Intermediated, 2014

NUMBER OF INVESTORS: 16

■ Direct    ■ Intermediated

**By Number of Investments**

Total: 51

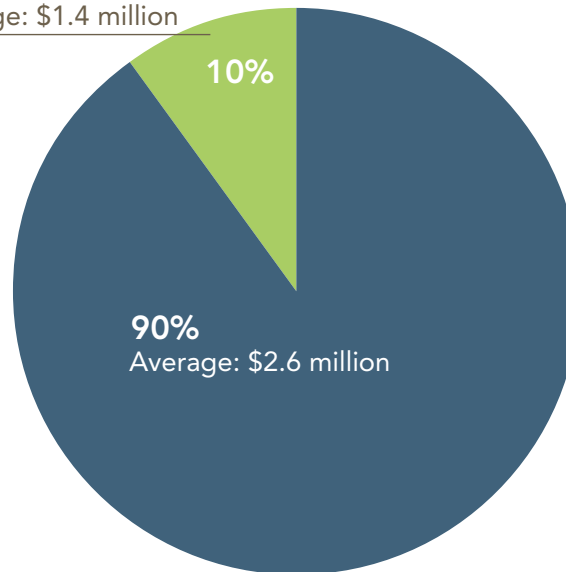


**By Dollars Invested**

Total: \$122,075,103

Average: \$2,393,629

Average: \$1.4 million



## Impact Investments

All but one respondent reported making at least one investment directly to an organization with a health-related mission. Four organizations funded projects through intermediary organizations, like community development loan funds or socially oriented equity funds. Overall, 83% of investments were direct investments and 18% were through intermediaries.

Definitions: **Direct investments** are made directly to an organization. **Intermediated investments** are investments placed into the fund of an intermediary organization, which makes the investments in the target organization.

Note: Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.



# Investment Size, 2014

TOTAL NUMBER OF INVESTORS: 16

■ <\$100k   
 ■ \$100k–\$499k   
 ■ \$500k–\$999k   
 ■ \$1.0M–\$2.9M   
 ■ \$3.0M–\$4.9M   
 ■ \$5.0M–\$10.0M   
 ■ \$10.0M+

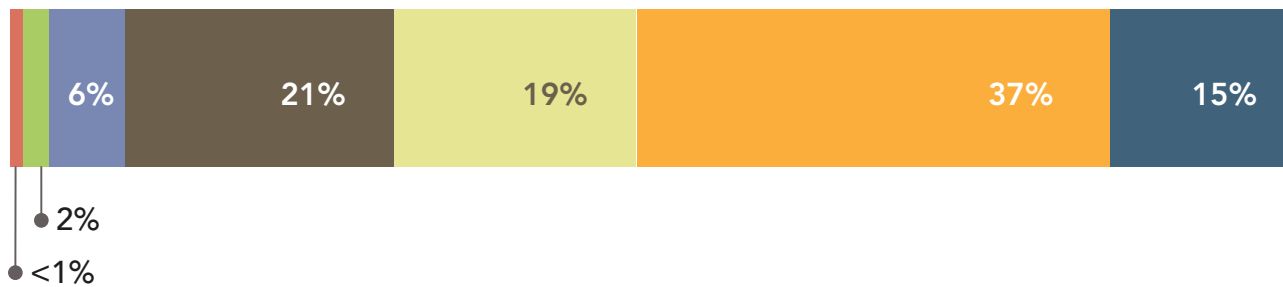
## By Number of Investments

Total: 51



## By Dollars Invested

Total: \$122,075,103



Note: Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.

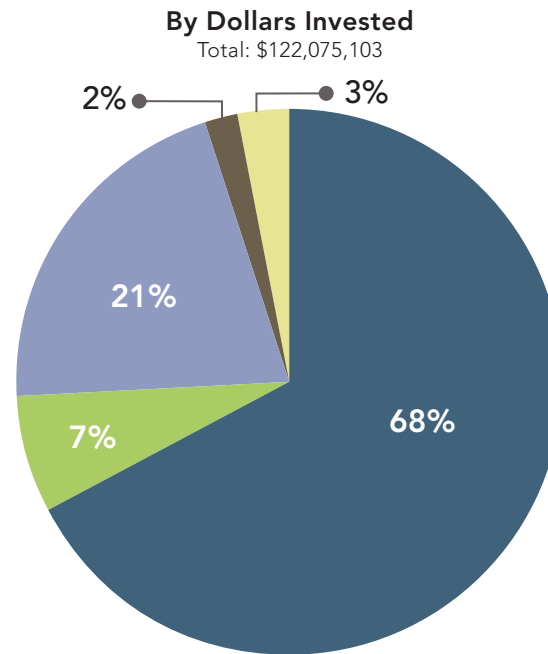
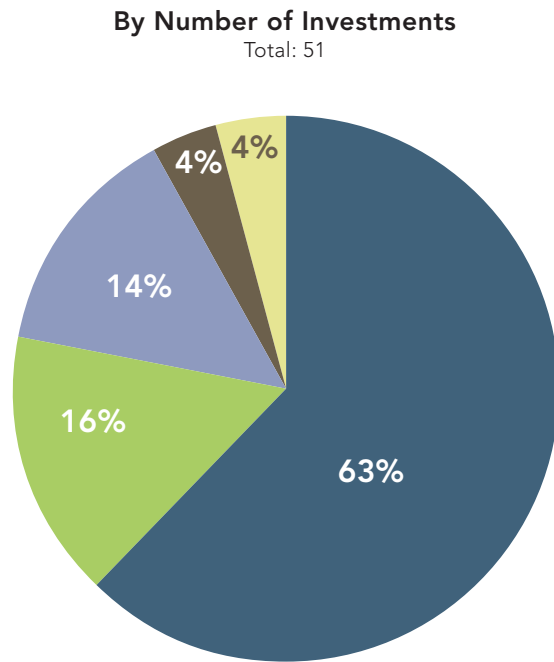
## Impact Investments

Ten investors made 16 health impact investments ranging from \$1 million to \$2.9 million. Six large investments of over \$5 million accounted for more than half of the total invested by all respondents in 2014.

# Investment Vehicle, 2014

NUMBER OF INVESTORS: 16

■ Debt   ■ Convertible Debt   ■ Equity   ■ Credit Facility   ■ Loan Guaranty



## Impact Investments

The majority (63%) of health impact investments made by respondents were debt, the most traditional structure for mission investments. Nine investors used debt exclusively. Four investors made equity investments, accounting for 14% of total investments made by respondents in 2014. Nearly half of respondents (44%) used multiple vehicles to support their investees.

Definitions: **Debt** is money borrowed by one party from another. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest. **Convertible debt** is debt that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the debt holder. **Equity** is a stock or any other security representing an ownership interest. **Credit facility** is a type of loan made in a business finance context. These include revolving credit, term loans, committed facilities, letters of credit, and most retail credit accounts. A **loan guaranty** is a loan guaranteed by a third party in the event that the borrower defaults.

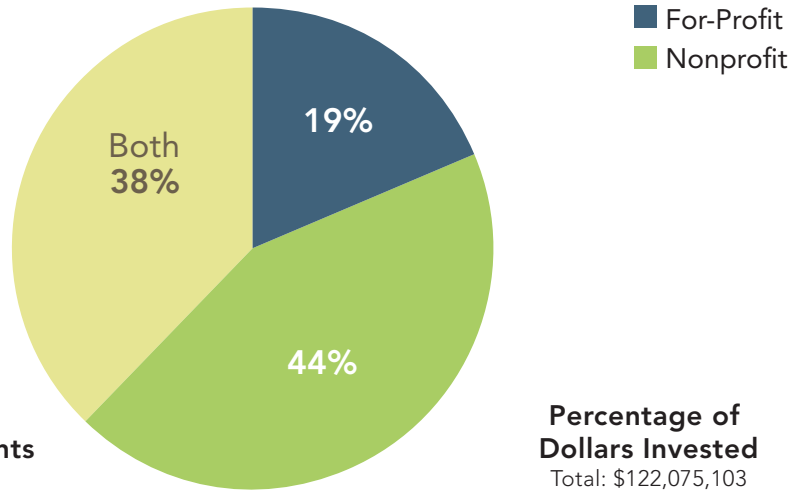
Note: Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.

# Investee Organizations: For-Profit vs. Nonprofit, 2014

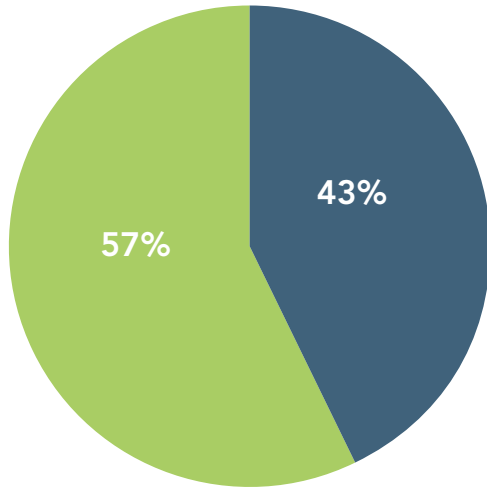
Percentage of Investors

Total: 16



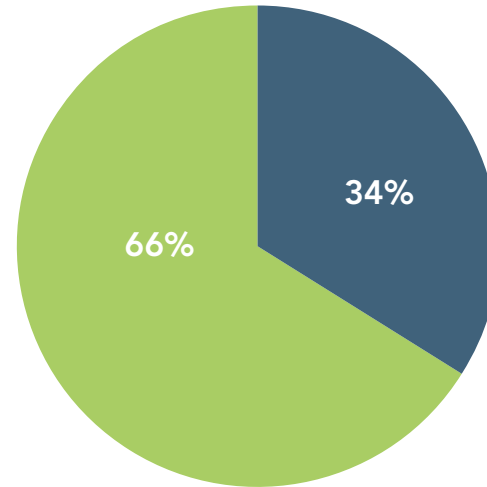
Percentage of Investments

Total: 51



Percentage of Dollars Invested

Total: \$122,075,103



## Investment Recipients

Respondents were more likely to invest in nonprofit organizations than in for-profit groups. Two-thirds of health impact investment dollars went to nonprofits. Just three respondents (19%) invested exclusively in for-profit organizations to achieve their social impact goals.

Note: Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.

# Health Focus of Investee Organizations, 2014

## Percentage of Investors

Total: 16

Wellness and Healthy Lifestyles



Environmental and Social Determinants of Health

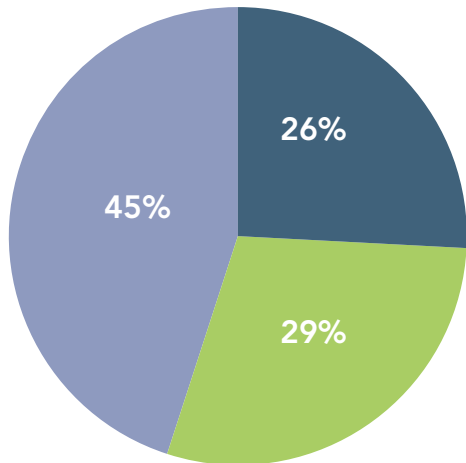


Care Delivery System



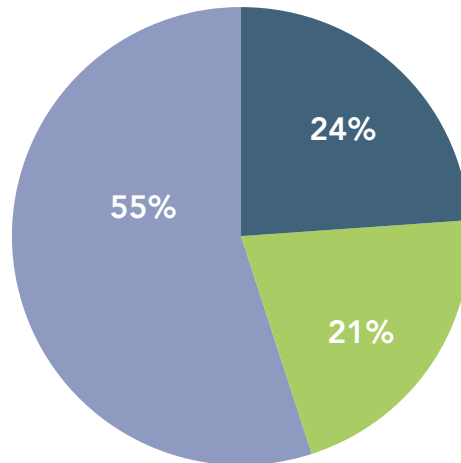
## Percentage of Investments

Total: 51



## Percentage of Dollars Invested

Total: \$122,075,103



## Investment Recipients

Investors engaged in different strategies to improve health. Of the respondents, 44% invested in organizations with wellness and disease prevention programs, 56% in organizations that address social and environmental determinants of health, and 69% in organizations with strategies to improve the care delivery system. Half of respondents invested in organizations that work in multiple health-related areas.

Source: CHCF survey, 2015.

# Examples of Investee Organizations by Profit Status and Impact Strategy, 2014

## For-Profit Investees

### Care Delivery System

- Fidelis Senior Care
- PipelineRx
- Seamless Medical
- SeeChange Health/Healthmine

### Wellness and Healthy Lifestyles

- Affinivax
- Atreca
- Cervilenz
- Omada Health

### Environmental and Social Determinants of Health

- Bay Area Equity Fund
- Goldman Sachs Social Impact Fund
- Invest Northwest
- SJF Ventures

## Nonprofit Investees

- Central City Community Health Center
- Commonwealth Care Alliance
- Evergreen Healthcare Co-op
- LifeLong Medical Care
- Pacific Vision Foundation

- Dental Aid

- Adobe
- Capital Impact Partners
- Case Commons
- Center for Family Representation
- Living Cities Catalyst Fund

## Investment Recipients

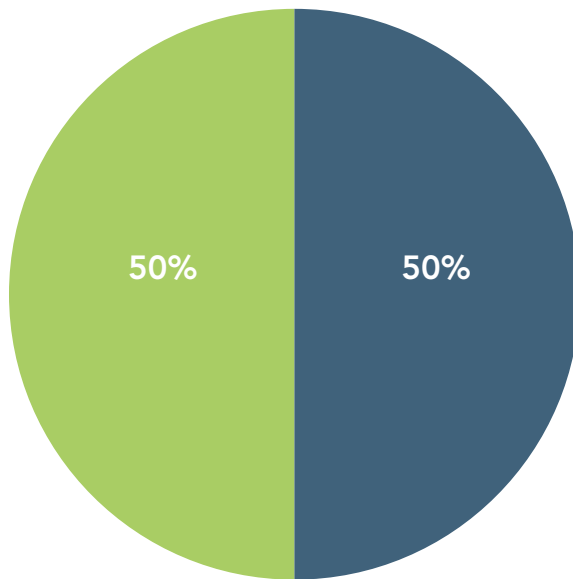
Impact investors supported a range of for-profit and nonprofit organizations, including a digital health company providing web-based information and coaching to prevent chronic disease (Omada Health); a supportive housing program providing integrated medical care, school-based health services, and mobile dental services for the homeless (LifeLong Medical Care); and an investment fund focused on neighborhood building, job creation, education, and health care (Goldman Sachs Social Impact Fund).

Source: CHCF survey, 2015.

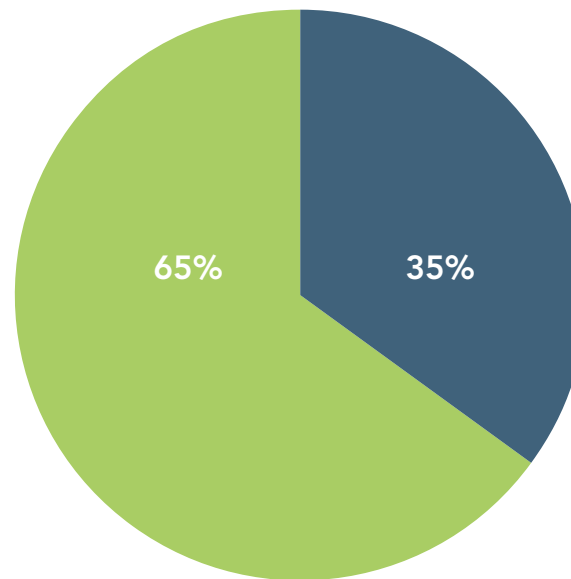
# Investee Organizations: Former Grantees vs. Nongraantees, 2014

■ Former Grantee   ■ Nongraantee

**Percentage of Investors**  
Total: 16



**Percentage of Investments**  
Total: 51



## Investment Recipients

Grants are sums of money given to an organization to achieve a goal, but with no expectation of financial return. Half of respondents made investments to former grantees, which are organizations that the investor knows well. However, 65% of health investments were awarded to nongraantee organizations.

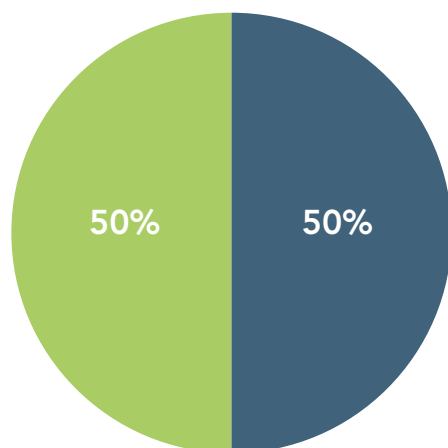
Source: CHCF survey, 2015.

## Paired-Grant Strategies: 2014

■ Paired Grants   ■ No Paired Grants

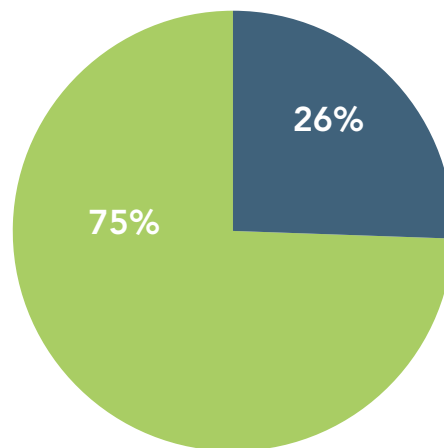
Percentage of Investors

Total: 16



Percentage of Investments

Total: 51



### Investment Recipients

Many investors paired grants with impact investments to strengthen the programmatic impact. In 2014, this paired-grant strategy was used to cover start-up costs, technical assistance, targeted business development, and project evaluation, for example.

## Examples of Paired Grants

### Program Impact

- Needs assessment
- Targeted product development
- Language translation
- Project evaluation

### Start-Up Activities

- Business development and marketing
- Technical
- Legal costs
- Staff capacity

Note: Percentages may not add to 100% due to rounding.

Source: CHCF survey, 2015.

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## Methodology

CHCF surveyed funders and other investment institutions about investments they have made to impact US health and health care — including investments influencing determinants of health, wellness and healthy lifestyles, and care system improvements. The survey questions are included in Appendix B.

Surveys were sent directly by CHCF to 77 organizations, and they were also distributed by Mission Investors Exchange to their member organizations. Thirty-nine organizations completed the survey, 23 of which did not make health investments in 2014. Included in this analysis are the responses of the 16 organizations that identified as having made investments impacting US health in 2014.

This was a follow-up to the 2013 survey conducted by Imprint Capital and published by CHCF, which was the first of its kind. In the future, survey results will be compared from year to year to present and discuss health impact investment trends. The 2015 survey results were not compared to results from 2013 in this report. These surveys offer a snapshot of activity in this field, and should not be considered as a comprehensive study of all health-related mission investing in the US. The goal of these reports is to share activity in the field of impact investing and to encourage other active impact investors to participate in future surveys.

Mission investors that would like to be included in future surveys are invited to contact CHCF.

## About the Mission Investors Exchange

Mission Investors Exchange is a national membership organization of foundations and mission-investing organizations. MIE is a forum for philanthropic innovators to share ideas, tools, and experiences to increase the impact of their capital.

Learn more at [www.missioninvestors.org](http://www.missioninvestors.org).



## About the Author

Melissa Buckley, MPP, served as a consultant on this project prior to joining CHCF staff. Melissa has served as an independent strategic consultant to nonprofits and health care companies, including the Calvert Foundation, Health Evolution Partners, Room to Read, and United Way of the Bay Area. Prior to working independently, she was a strategy consultant at McKinsey & Co. in New York and San Francisco and in health care investment banking at J.P. Morgan & Co. in New York. She is currently the interim director of the Health Innovation Fund.

## About the Foundation

The California HealthCare Foundation (CHCF) is leading the way to better health care for all Californians, particularly those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford.

CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.

For more information, visit [www.chcf.org](http://www.chcf.org).

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## Appendix A: Definitions of Mission- and Program-Related Investing

There are many terms used to describe investments that generate both a social/environmental and a financial return. We use the term “impact or mission investments” to describe investments made by foundations and other mission-based organizations to further their philanthropic goals.

Impact investments cover two distinct categories of investments: market-rate mission-related investments (MRIs) that have a positive social impact while contributing to the investor’s long-term financial stability and growth, and program-related investments (PRIs) that are designed to achieve specific program objectives while earning a below-market rate return.

### **Mission-Related Investments (MRIs)**

- MRIs are market-rate investments that support the mission of the investor by generating a positive social or environmental impact.
- MRIs can be made in investments that in the wider investment community are referred to as socially responsible investments, investing in emerging domestic markets, double/triple bottom line investing, green investing, or impact investing.
- An MRI is fundamentally a financial investment and must meet applicable prudent investor standards just like more conventional investments.
- MRI opportunities exist across asset classes in cash, fixed income, public equity, private equity and venture capital, and real estate.

### **Program-Related Investments (PRIs)**

- PRIs are investments made with a targeted program objective that are not expected to provide a market rate of return.
- PRIs are defined by the IRS tax code, and they are eligible to count as part of the 5% payout that foundations are required to make each year to retain their tax-exempt status. PRIs must:
  - Be made primarily to further the foundation’s charitable purpose
  - Lack any significant investment purpose
  - Not be used for electioneering or lobbying
- PRIs may be made in the form of loans, loan guarantees, cash deposits, equity investments, and other investments made for a specific purpose such as affordable, workforce housing and community development facilities.
- Investors vary in their approach to PRIs — they may include PRIs as part of their grant budget or choose to view PRIs within the context of their endowment investment allocation.

Source: Mission Investors Exchange website, About Mission Investing ([www.missioninvestors.org](http://www.missioninvestors.org)).

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# Appendix B: California HealthCare Foundation Mission Investing Survey

## Definitions:

**Care Delivery System:** These investments seek to improve the health care system by reducing costs, increasing access, or strengthening the performance of care providers.

**Wellness and Healthy Lifestyles:** These investments aim to improve the health and well-being of individuals through behavior change, provision of healthy food or needed medicine, or other individual-level interventions.

**Environmental and Social Determinants of Health:** The goal of these investments is to improve the environmental and social factors that impact population health, including air pollution, housing, and transportation.

**Mission-Related Investment:** Market-rate and have a positive social impact while contributing to the foundation's long-term financial stability and growth.

**Program-Related Investment:** Investments made without the expectation of a market rate of return, designed to achieve specific program objectives.

## Questions:

1. Please complete with your organization's information

- Did your organization make mission investments that closed in the 2014 calendar year?
- Is the impact of your investments focused on improving any of the following three categories (as defined above: Care Delivery System, Wellness and Healthy Lifestyle, Environmental and Social Determinants of Health)

2. Please complete for each investment made:

- Investee Organization Name
- Type of investment (Mission-Related Investment, Program-Related Investment, Other)
- Amount of the investment (\$ in USD)
- Was the investment direct or through an intermediary?
- What was the investment vehicle? (Debt, Convertible Debt, Equity, Credit Facility, Loan Guaranty)
- Is the investee a for-profit or nonprofit entity?
- Area the investee is working to improve: (Care Delivery System, Wellness and Healthy Lifestyle, Environmental and Social Determinants of Health, Other)
- Did the investment support a specific geography? If yes, select geography (Regional, US, International)
- Is the investee a current or former grantee?
- Did you / will you pair a grant with this investment?