Impact Investing at Lumina Foundation: Potential, Pitfalls, and Progress

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Preface: 2020—An Inflection Point

Preface: 2020—An Inflection Point

Jamie Merisotis sat staring over the nighttime flow of Indianapolis's Wholesale District. The honks, the bright lights and weaving foot-traffic—the bustling swirl through his window reflected his thoughts.

As President and CEO of Lumina Foundation, one of the United States' largest education funders, Merisotis had much to be thinking about. It was his job to, alongside his leadership team, set the strategy that Lumina would pursue to achieve its mission: an inclusive and diverse educational landscape, with a focus on post-secondary education and adult economic preparedness. The foundation had recently crystallized this mission around a specific aim: "Goal 2025", which it defined as a post-secondary education ecosystem that was accessible and varied enough to ensure that 60% of adults in the United States had obtained "a high-quality college degree, certificate, industry certification, or other credential of value"[1] by the year 2025.

Like many of its peer organizations, Lumina pursued this mission through various means. The foundation was a widely acknowledged thought-leader, convening experts and releasing its own analysis on obstacles and opportunities in education; it was a significant grantmaker, providing capital to projects and organizations that worked to expand access or implement new models of teaching or accreditation; lastly—and this was what Merisotis pondered now, watching pedestrians and rideshares several stories below—the foundation had recently become an investor. An "impact investor", to be more precise; since, as a foundation, its operations had of course been financed by investments since its inception. But over the last few years, it had tried something new: deploying capital in ways that were neither philanthropic grantmaking—its core, traditional operation as a private foundation--nor profit-maximizing investment management—an essential activity for any organization whose solvency and operations depend on a financial endowment. Rather, in exploring impact investing, Lumina had begun dedicating resources and mindshare to fusing these two goals of "mission" and "profit". It had begun to figure out how it could effectively make investments that would *simultaneously* advance its mission and provide a return.

Lumina was joined in this undertaking by many other large, mostly-grantmaking foundations. It and other legacy institutions were, in turn, joined by new outfits—for-profit funds, consulting advisories—dedicated to social enterprise, impact investment, and other tools that sought to operate at the overlap between market viability and social change. And, like many participants in this new and dynamic space, Lumina had discovered both potential and pitfalls.

This was the tantalizing, frustrating, promising mix that brought Lumina to an inflection point in 2020; the inflection point that Merisotis now pondered as he watched the tourists, taillights, and commuters. Late in 2019, the first director whom Lumina had hired to run its impact investment arm had left his position after five years on the job, and his deputy director was now herself moving on. With the loss of these two key individuals, Lumina lost 100% of its *dedicated* impact investment staff. Its leadership was engaged in oversight and strategy, some actively, but the departing staffers were the only ones whose *jobs* had been impact investment.

This presented challenges, but also a "blank slate" on which Merisotis and the rest of Lumina's leadership could compare experiences and assess Lumina's impact investing efforts so far. The departures of the director and then of his deputy had been neither acrimonious nor unexpected. That very non-suddenness, however, was because both exits had been based on fundamental, unresolved questions that affected the way impact investing operated within the broader foundation. These questions boiled down to one thing:

Was it good enough for Lumina to participate in impact investing at arm's length, by dedicating funds to an internal capacity that had little to do with the rest of its work? Or should success be defined by integration: the creation of a synergistic whole in which Lumina's impact investing activities contributed to, and were in turn strengthened by, the foundation's long-standing activities in grantmaking, advocacy, and thought leadership?

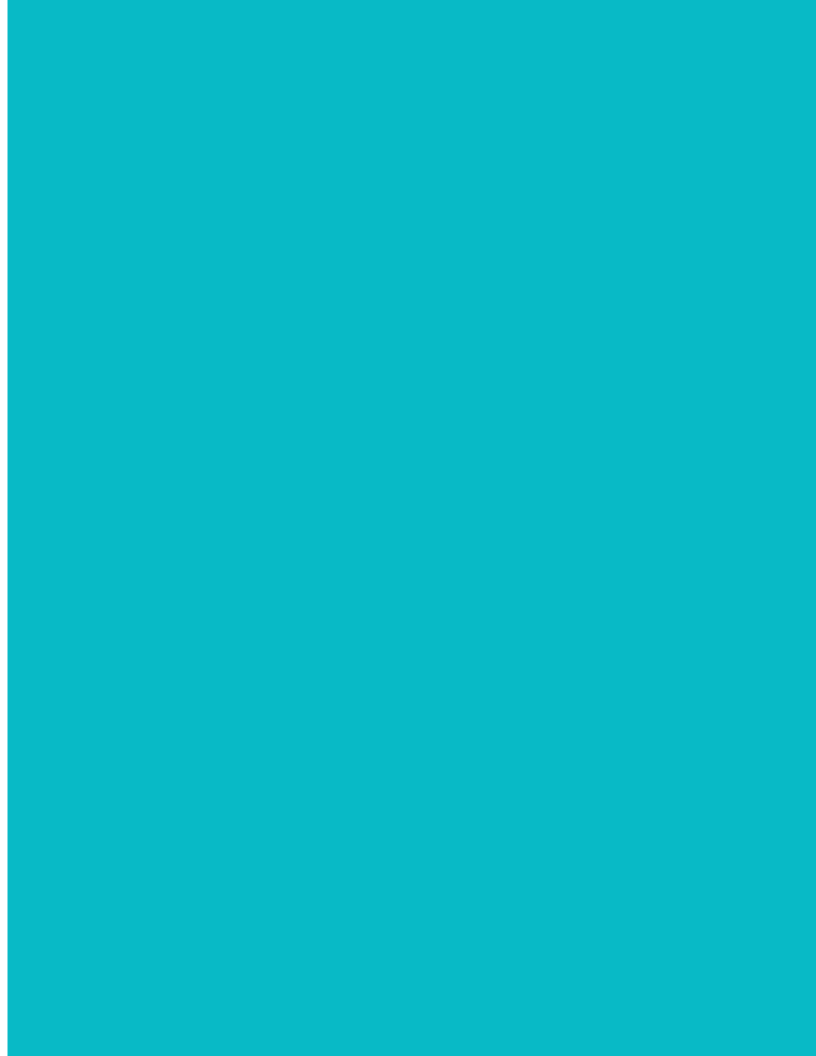
Merisotis and his team were aware of how leadership could drive organizational change. They were aware of it in their own responsibilities, discussing these key questions; and they were aware of it as—having come to conclusions—they moved to take their first significant action based on those discussions: hiring a new director for Lumina's impact investment venture. Merisotis and the team at Lumina believed that they'd found the right person for the job. They felt confident that this new hire had the experience and abilities required to thrive under the strategic vision they'd laid out. Merisotis was optimistic: he had faith in his colleagues and in the collective thought process by which they'd set Lumina on this course.

But he also knew that success was not guaranteed. He knew, in a word, that they still could be *wrong*. This new hire, for example, could be well-qualified...for the wrong strategy.

Merisotis thought it through for the hundredth time. What *had* gone well, in their first investments? Much had; it had certainly *not* been a bust. But equally: what had gone poorly? And why?

And most importantly: why, despite the whole team's expressed belief in the importance of integrating impact investing with the foundation's legacy activities, had this integration eluded them so far?

Ideation: 2010 to 2015—A New Tool for the Toolbox



Ideation: 2010 to 2015—A New Tool for the Toolbox

Founded in 2000, the organization that Jamie Merisotis led was no stranger to change; Lumina Foundation had evolved and continued to. It originated as a byproduct of the baroque and shifting student loan industry: when Sallie Mae—a government-sponsored entity turned independent public corporation—acquired the operating assets of USA Group—at the time the largest private originator and guarantor of educational loans in the U.S., some of the sale proceeds were used to establish an independent foundation—Lumina Foundation: a private foundation, based in Indianapolis, "committed to making opportunities for learning beyond high school available to all."[2]

With an endowment of over one billion dollars, Lumina was a foundation with national reach and industry-wide impact. Since Merisotis' term as CEO began in 2008, it had built its operations and commitments around a core set of activities and carved out a position of prominence as a grantmaker, advocate, and thought leader in post-secondary education in the United States.

When Merisotis thought about impact investing at Lumina—indeed, when he or anyone else thought strategically about Lumina in any respect—they now did so in the context of "Goal 2025". This was Lumina's commitment to helping ensure that sixty percent of U.S. adults had attained some form of post-secondary degree or certification by 2025. "We want to help catalyze the country," Merisotis explains. "We're not going to do it on our own, but we're going to help catalyze the country towards this 2025 goal." (All direct quotations in this case are from interviews conducted by pfc social impact advisors for the purpose of this case's composition; for more information on the case's research methodology and a full list of interviewees, please see Appendix A.)

In both the formulation and pursuit of Goal 2025, Lumina confirmed longstanding institutional openness about the ends and the means that its broader mission implied. In formulating the goal, in determining its ends, Lumina strengthened in its conviction that limiting the definition of "post-secondary education" was both economically out-of-touch and socially exclusive; the conception that "post-secondary" was only or even primarily synonymous with "college" had been swept away by changes in demography, services, and the shifting U.S. economy. In all its work, therefore, Lumina sought to support:

> …new ideas that connect work and learning systems to promote novel career paths—ones that signal people's strengths throughout their journeys. Some models we promote include online certificates, apprenticeships, and skill-and-career mapping databases that are openly available. The aim of this new approach to work and learning is to free us from outdated, conventional learning systems that fail to build the talent we need to power modern society.[3]

Lumina employed this same spirit in its *pursuit* of Goal 2025. It took a multi-track approach in the strategy and tactics by which it sought to assure that 60% attainment rate, and any conversation with a Lumina staffer is bound to include some mention of "toolboxes" or "toolkits". A culture of breadth and experimentation is widely articulated; the benefit of expanding the "tools" in Lumina's "toolbox" is central to Lumina's expression of itself. "We always say a new tool in our toolbox, an arrow in our quiver or whatever it is," wryly notes Courtney Brown, Lumina's Vice President of Impact and Planning. "The vision was, 'Oh, we should essentially have another tool in our toolkit,'" Chauncy Lennon, Lumina's VP of Learning and Work, echoes. Holly McKiernan, Lumina's Executive Vice President, COO & General Counsel, breaks it into detail: "So for example," she explains, "if you have a strategy that you're trying to increase student success in community colleges, then the array of different tools you have at your disposal are grants, convenings, impact investing, communications, research, and data."[4]

Therefore Lumina was a policy advocate at the state and federal level, a producer of original research and publications, a convener of experts and aligned organizations in its space, and—of course—a major philanthropic grantmaker.[5]

This is also why Lumina began exploring impact investing.

Lumina began with the hope that it could deploy its own capital in new ways that would strengthen its ability to pursue its mission, leverage *other* investors into that same pursuit, and help advance the social sector generally. "Our board and leadership team at the time," Brad Kelsheimer, Lumina's CFO and VP for Finance and Investments, summarizes, "felt like there was an opportunity to do something a little more innovative and fill some gaps" in how large foundations were and were *not* engaging with the promise of impact investment and social enterprise.

Lumina's approach here shows elements of a framework of analysis and action known as "Deliberate Leadership". Deliberate Leadership is a holistic approach to complex problems that engages all constituencies and proactively seeks out novel and even unproven solutions. It requires an organization to be willing to take risks, to communicate frankly about success and failure, and to be flexible in redirecting as needed. Please see Appendix B for more on the "Deliberate Leadership" framework, which may serve as a useful lens for assessing Lumina's successes and challenges described throughout this case.

Holly McKiernan—who joined Lumina in 2003, several years before Merisotis' tenure—offers her veteran's view of the timeline. "A few years of exploration" began in 2010, when Lumina started investing 2% of its portfolio in mission-related investments. Then, "in 2015, we pivoted to direct investments in for-profits that align very tightly with our mission." Merisotis adds an important detail; reprising the organizational theme of "us[ing] all the tools in the toolbox," the CEO distills how Lumina's strategy "eventually became direct-equity investing using PRI as the mechanism" in 2015.

It took several years to reach that understanding—years during which Lumina learned crucial lessons about impact investing. Before jumping into the foundation's journey and breaking down what its strategy meant, let's first discuss "impact investing" itself.

Impact investing and philanthropy

What's a "PRI", or program-related investment? And why—as Merisotis says above—is using it as a "mechanism" important?

What's "impact investing" exactly, in fact? And why would—or *should*—a major foundation like Lumina be interested in it?

These questions, as one might expect, are connected.

"Impact investing" and related terms—such as "social enterprise"—do not mean the same thing in every context. The labels "impact" and "social" are used in reference to many kinds of businesses and activities in both the for- and not-for-profit sectors of the economy. A safe overall description might be to suggest that either term be seen as an *affirmation of proactivity:* these newer labels are evolutions of also-much-used older labels, with the distinction being that the older labels often emphasized *mitigating* the individual, social, and environmental costs that a (mostly) market-based global economy can exact from participants and non-participants alike, while the newer labels generally emphasize *creating positive outcomes where none exist* as well as diminishing negative ones.

The "CSR" (corporate social responsibility) movement, for example, emphasized personal acts of community-building, volunteerism, and corporate philanthropy for decades; it was about "doing good" in addition to "doing well" and applying a baseline ethical standard to corporate behavior. In the 2010s and 2020s, however, this evolved into the more sharply held and vocally expounded view that corporations have an obligation to engage with society in *actively* beneficial ways; that corporate philanthropy could no longer serve as a fig leaf for harmful or unethical corporate practices; and that any business or brand that *failed* this test in the subjective eyes of either mainstream consensus or a vocal group of its consumers or employees would in some way be held to account.

Mainstream finance saw this progression as well. The "divestment" movement of the 1980s and '90s morphed into the "ESG" (environmental, social, and governance) movement in the early

2000s, cementing a widespread shift in consumer preference as awareness grew of the power of institutional investors (pensions, university endowments, etc.) to force corporate and political change, and pressure grew to use that power—first to mitigate negative impacts of corporate policies, then to assure outcomes deemed to be socially beneficial.

Social enterprise and impact investment are the apotheosis of these trends. Social enterprise seeks to join market-driven activity and pro-social outcomes into *single actions*—businesses and investments that are profitable in competitive markets while actively, intentionally creating positive social or environmental outcomes. While there remains a great deal of subjectivity, both in measurement and objectives, of *what* "positive" means and *how* it should be assessed, this aim is consistent across categories: a start-up that is a "social enterprise", an equity investment that is an "impact investment", are trying to change the world according to some specific configuration of normative values—while achieving self-sustainability, profitability, and growth.

PRI vs. MRI: More than Just Alphabet Soup

This joint purpose—sometimes referred to as a "double-bottom line"—is useful in discussing the distinction a foundation like Lumina must make between program-related investments (PRI) and "mission-related" investments (MRI). Both terms hold legal significance in U.S. tax law. For a more detailed exposition, please see Appendix C; the crucial point for understanding these labels in the context of this narrative is that MRI dollars, meaning allocations of a foundation's assets dedicated to "mission-related" investments, are indeed meant to serve some social purpose, but are neither burdened nor validated by any rigorous, specifically formulated requirements regarding what "social" or "mission-related" should mean. MRIs have, as the first lens, financial returns; secondly, they are expected to align with the charitable purposes of the foundation.

PRIs, or program-related investments, are different. Despite what may seem like a semantic difference between "mission" and "program", this is a categorically more rigorous label that can only be applied to assets whose *principal purpose* is to serve the foundation's mission (i.e., a charitable purpose.) These program-related investments can therefore be "counted" towards the 5% minimum required annual distribution the foundation is required to make to maintain its formal status as a private foundation, a central benefit of which is its tax-exemption.

These details of the tax code create both optics and operational realities that are material to Lumina's story and, in general, the case for why a private philanthropic foundation might engage in impact investing. Let's zoom out to the broader question, then zoom in:

The Impact Investing Case for a Foundation

When and why would it be preferable for a large foundation like Lumina to mix these two goals in a single action? "Impact investing" means seeking investment opportunities that both further the foundation's mission *and* achieve a financial return on the dollars allocated, *rather than* keeping the two functions separate by maximizing its endowment through the most profitable investments

possible, while—separately—maximizing its impact through the most effective grants possible. What are the potential benefits of impact investing's *blended* approach?

It is immediately clear how and when this would *not* make sense. It takes no expertise in the space, nor any strong views on the reconcilability of profit-driven and pro-social activities, to observe that two constraints are harder to meet than just one. Collapsing *separate* actions (maximize return; maximize impact) into a single action (earn return; achieve impact) is nearly certain to prove more challenging than keeping the actions distinct. If the pursuit of an "impact investment" strategy would therefore force a foundation to either unduly hobble either of these goals, or simply to expend much more effort and time to achieve the *same* level of return and impact that could have been more easily achieved as separate efforts, impact investing starts to look like the zeitgeisty fad of dubious merit that its detractors argue it is.

There are, however, cases where having an impact investment strategy is not just a dilution of or distraction from the two existing, familiar, core strategies for a foundation or other large philanthropic organization; rather, in these cases, impact investing can serve as a new "tool in the toolbox": a way to achieve things that the foundation might otherwise have trouble achieving, or even be wholly unable to achieve.

The first is when an *investment* is the only way to implement an intervention that is consistent with or even *driven* by a foundation's mission. An evident general case from this is *scaling* interventions; the solution to the question, "But how can we assure funding if the pilot *is* successful?" is built into the for-profit investment model, since the "pilot" (or any early-stage intervention, product, or service) being "successful" definitionally means that it is profitable and therefore a viable investment for a variety of other potential investors.

This logic, in fact, flows directly into the second case: when a foundation or other socially motivated player believes that it can *leverage* its own capital base to catalyze greater total investment in a business or project by encouraging *other investors* who do not participate in purely philanthropic endeavors. "Impact" investing in early-stage businesses has a capacity for scale that grantmaking does not, if a foundation can lower the costs—transactional, cultural, or financial—of participation in each project such that private capital *is* willing to give it a look.

There are numerous public incentive mechanisms, such as the New Markets Tax Credit, designed around this very thinking: helping purpose-driven organizations (foundations, Community Development Financial Institutions) serve as catalytic investors who bring in private, profit-driven co-investors. This is one of the most compelling logics behind impact investing, since success of this kind implies that these organizations focused on social change, primarily; they have a "leveraging opportunity" to facilitate an influx of capital from untapped private markets whose players are focused primarily on profitability (see Appendix D for some of arguments that John Duong, the former head of the impact investing program at the foundation, made for the market opportunity). This expanding

pool of potential investors can, in this way of thinking, vastly increase the resources invested in projects, initiatives, and businesses that are engines of both profitability and positive social returns. Plus, at the level of the originating organization, they present a potential opportunity to either earn a return on the investment itself or, as in the case of some structures such as the New Markets Tax Credit, cultivate a revenue stream based on the foundation's position as a facilitating market-maker. In either case, those are funds that purpose-driven organizations can then reinvest in their own operations or, again, directly in appropriate impactful ventures.

Impact Investing at Lumina: Testing the Water

Both cases given above are directly relevant to Lumina's story and applying them illuminates the details of particularities such as the important distinction between "MRI" and "PRI".

2010-2012: Dipping a Toe In—Investing in Mission-Related Funds

Jamie Merisotis, Holly McKiernan, and Lumina's leadership at the time had experience with formulating new lines of activity; they were also familiar, at least at a high level, with some of the potential pitfalls that attended the *promise* of impact investing. So, they started gingerly. "We began this by really looking at it from a mission-related investment frame," McKiernan explains, describing an exploratory and opportunistic first phase that assumed "2% of the endowment would be committed to mission-related investments, with the first threshold being market-rate returns and the second being charitable impact." This represented a gradual approach, an experiment to test the organization's capacity to find investment opportunities that brought a market-rate return while being aligned with the Foundation's strategic goals. It was an opportunity to enter the field of impact investing, to learn, and to think through what impact investing would mean to Lumina.

Even this approach, however—a familiar one in the market, closer to the ESG "mitigation" model than the impact investing "proactive change" model—ran into challenges. Lumina started looking for fund managers or general partners (GPs) and "we couldn't find a lot," Merisotis explains. They couldn't find many who were focused on Lumina's core mission space of post-secondary education. Many funds straddling impact and returns had expertise in K-12 education, or "education" generally, but few were focused on post-secondary opportunities, especially in the sense that Lumina had woven into its mission: actively including certificates and skills-training and other *non*-college pathways to self-empowerment.

Lumina therefore wound up serving as the anchor limited partner (LP) of a fund, with a GP serving as marketers by searching out venture investors with the capacity to find and execute deals that were consonant with Lumina's mission. This led to an ad hoc and opportunistic approach that offered Lumina little it could do to guide or choose investments. The plan was for Lumina to find and invest in private equity funds whose own vision of "impact", and core areas of investment, overlapped sufficiently with Lumina's areas of focus.

This ran into challenges, as well—which implicitly validated the idea that Lumina could indeed play a beneficial role in this space. Early on, there were not many potential GPs or fund managers with

Lumina's expertise and readiness to make profitable investments in enterprises dedicated to expanding post-secondary education. "We felt like [this] was a good approach," Merisotis recalls, "because we had done something that we had not seen very many private foundations do before."

Lumina knew *its* space: increasing the accessibility of post-secondary education, writ large. What it needed to develop, therefore, was the institutional capacity to implement this knowledge *as an investor* in sourcing and executing deals in that space.

2013-2015: Focusing on Non-profits and Mission-related Funds—Strategic Social Investing

Lumina began changing gears in 2012, shifting to a strategy that it hoped would increase and specify its deal flow while minimizing the operational frictions that arise from; that come with partnering with a varied group of GPs. In this next iteration as an impact investor, Lumina adopted an approach that focused on scaling non-profit organizations. It also named its impact investment efforts: "Strategic Social Investments" (SSI).

This approach meant that Lumina continued to invest in mission-related funds while also turning its attention toward non-profit organizations with promising initiatives to increase post-secondary attainment. The idea was to partner with nonprofits that had proven ideas that needed scaling, investing in and providing coaching to these organizations to help them grow.

This iteration, however, was short-lived. As Merisotis notes, investing in mission-related funds positioned Lumina to "make grants to organizations that would then be re-granting [to other] organizations"—some of which, in fact, were entities Lumina would have or had considered working with directly; in other words, a redundancy of the organization's efforts.

This stage ran its course within about eighteen months. By 2015, Lumina's leadership had determined that: (1) institutional growth as an impact investor would require more direct engagement; and (2) its goal to be "innovative" and "fill some gaps", as Brad Kelsheimer put it earlier, wasn't served by a plan centered on slotting into existing funds with existing processes and investment philosophies.

"We realized," Merisotis recalls, "that what we really need to think about is whether we can make direct-equity investments in for-profit companies."

2015: Diving In

So, Lumina recalibrated to figure that out.

A March 2015 memorandum (Appendix E) outlines this pivot, which brings Lumina's journey to the point that McKiernan, Merisotis, and others at the organization mark as the start of its practice of impact investing in earnest. After those "few years of iteration", in McKiernan's earlier summary, Lumina's leadership now felt that the organization could commit to a bolder and more decisive plan.

Lumina's evolving impact investing initiative continued under the same name, Strategic Social Investments. However, instead of catalyzing change in nonprofits organizations, investments would seek to:

1. create impact towards achieving Lumina's core mission as embodied in "Goal 2025",
2. earn a positive, concessionary (*i.e.*, below-market) financial return,
3. catalyze other investors to join Lumina in investments supporting Lumina's mission, and
4. contribute to the growth of the post-secondary education ecosystem in the United States.[6]

These goals reflect the general reasons outlined earlier in this case, in the section titled "Impact Investing and Philanthropy". Lumina took general parameters—well known in the field—and applied them to its own context and mission. Lumina's logic also provides an object lesson in what it means for a foundation to identify an activity with its PRI, rather than MRI, funding and operations. As one might expect, all these reasons are linked.

Beginning with the first reason for a foundation like Lumina to undertake impact investing—that it may sometimes be the *best* or even *only* way to pursue specific, critical objectives towards the foundation's mission—a consideration of the "ecosystem" of education in the United States makes it clear why Lumina was drawn to the potential of this new "tool for its toolbox". Working in post-secondary education, Lumina operated within a vast and complex national market that directly impacts tens of millions of Americans and indirectly impacts millions more. This market is defined by a variety of public and private providers, including for-profits, non-profits, and "social" businesses. It presents precisely the sort of *huge* and *irreducibly complex* context where analysis is invaluable—and Lumina already had deep experience in analysis. One hoped-for benefit of working with bottom-up, self-sustaining solutions—i.e., businesses—was that market pressures might force them to adapt to this complexity more efficiently than top-down, charitably-funded interventions. To *find* new, emergent solutions that combined this market-driven efficiency with a clear social outcome in keeping with Lumina's mission; to *facilitate* their iteration and development; and, finally, to help them grow to scale and have a potentially transformative impact on the sector, Lumina realized that it might need to add *bona fide*, equity-based, directly executed impact investing to its portfolio of activities. "If one of these ideas hits," argues Courtney Brown, Lumina's VP of Impact and Planning, "it could have the biggest impact on the goal—a much bigger impact than any of our grants." In terms of *formulating* solutions, then, impact investing could serve as an invaluable complement to Lumina's own research; and in terms of *scaling* solutions, it might be the best option around.

This links to Lumina's third stated goal: to attract "$5 of other investors' money for each $1 of Lumina's money".[7] This is an implementation of the second general argument, noted earlier, for why mission-driven organizations should learn to find and make appropriate investments that earn a financial return. By investing early in social enterprises and other initiatives that have the capacity to both effect positive social outcomes *and* scale profitably, Lumina sought to function as a bridge between these hypothetical investees and a much broader pool of capital, perhaps even including traditional capital markets. This creates a powerful multiplier effect, articulated

here by Lumina's goal of achieving a 5x. Which flows, of course, into a final goal that knits all these objectives together—Lumina's aspiration to facilitate the growth of the ecosystem of post-secondary school education in America by funding novel solutions, helping them scale, and thus connecting *its* space to even *more* investment, in what might even become a self-perpetuating flywheel of growth and prosperity.

Also embedded in that March 2015 memo was Lumina's commitment to use PRI rather than MRI as the "mechanism", in Merisotis's description, through which it would conduct impact investment operations. This had practical implementation effects, as we'll see in the coming sections. At the planning stage, here, it can be understood as an internal and external legitimation of the goals Lumina had laid out for itself. The first goal was for every investment to "deliver a social return that contributes significantly to Goal 2025," taking priority over financial return. This reflects these investments' place as critical interventions judged central to the foundation's purpose (PRI), rather than financially beneficial activities that might, hopefully, also achieve some mission-related goal (MRI). That created a series of knock-on effects within the organization, with respect to the nature of scrutiny each potential investee would receive and how the impact investment operation should be staffed and operationalized.

A simple chart on page 2 of that March 2015 memorandum—viewable in Appendix E—summarizes this spectrum as Lumina saw it. It observes the space impact investing was to occupy: a tranche of activity tucked between "Market Return First" with "Potential Social Return", or MRI; and "Social Return Only" with "No Financial Return", or grantmaking. Between these are investments that put "Social Return First" while achieving a "1-3% Financial Return" as well as other positive outcomes discussed in this section. It is interesting to note that, while Lumina leadership is clear that this was understood to mean that Lumina's impact investment efforts would benefit from the mission-centricity of drawing from the general pool of Lumina's assets earmarked for PRI investment, those three letters appear nowhere in this memorandum.

Brad Kelsheimer, speaking later, summarizes the boldness of the strategy laid out in this memo: Lumina's leadership felt ready "to go out on a limb and do something different." They would not seek VC returns, per se—not with a target of a concessionary-at-best 1-3% return; but they were nonetheless clearly seeking to pivot this function towards being one that, on its own steam, ventured Lumina's capital. The goal was a new one and would require change; to allocate core resources to equity investments with a higher potential for both utter failure and transformative impact. It was new and, as Lumina looked out at its peer organizations, not something that many of them were doing.

Which meant, understandably, that it would face questions. The first of which would be from Lumina's Board. From the outset, Board support had been key to the success of Lumina's impact investing function. Gaining this support began with investing in mission-related funds; this had been, in 2010, seen as bold. Now that the foundation's thinking had evolved to making direct equity investments, Board support and engagement would be even more critical.

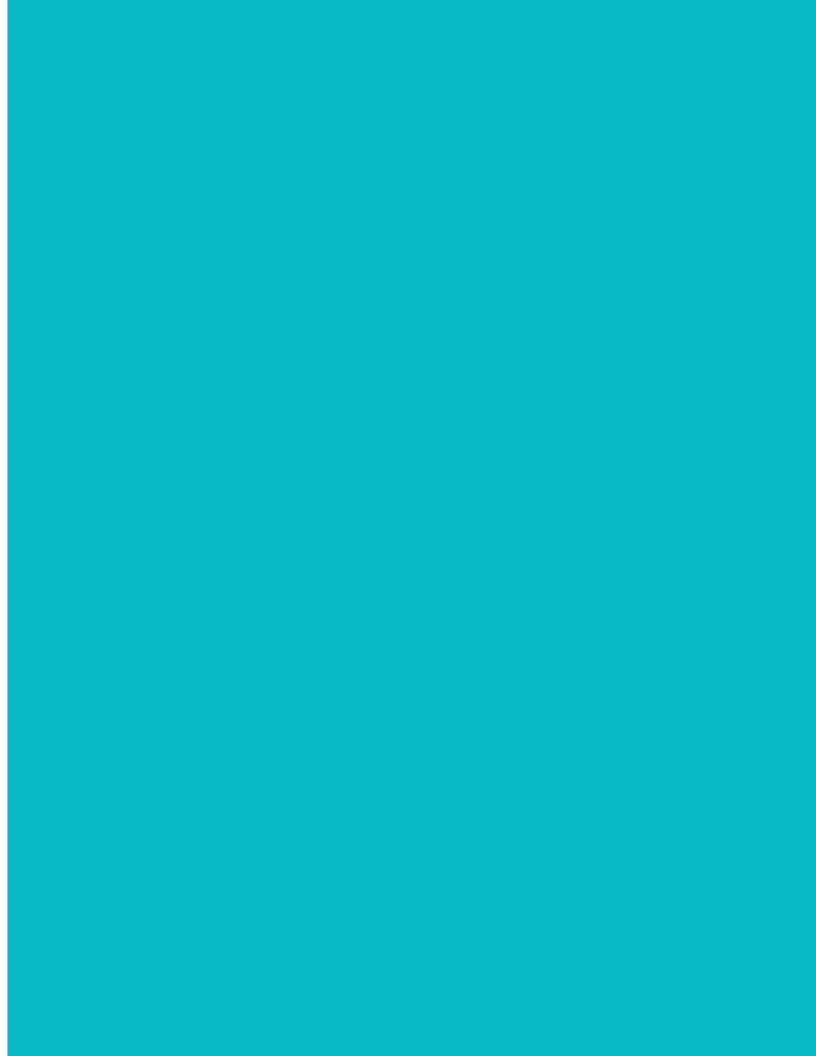
Getting the Board on Board

An approach that was novel in Lumina's market also struck many within the organization itself as unexpected—possibly in surprising, undesirable ways. So, the first job facing Jamie Merisotis and the rest of Lumina's leadership was internal advocacy for their new plan. And the first piece of internal advocacy—indeed, the piece without which there would be no "new plan"—was for Merisotis to convince Lumina's Board of Directors that this was a financial, reputational, and operational risk worth taking.

"We had people on the board who mostly had a higher ed background," Merisotis explains, and who therefore "didn't quite understand what [impact investing] was and why it was so unusual for a private foundation" to pursue it in this manner. To educate and convince the uncertain, Merisotis relied on three key board members who "understood private equity investing and the basic idea behind it." Merisotis also established an *ad hoc* Board committee that would function as an advisory group to himself and his team as they built out this capacity, providing Board members with ready information about the new direction.

The approach worked. After several discussions and a period of deliberation and education, the Board supported this new vision for the role impact investing might play within the Foundation and a ten-year, $50MM goal was allocated: Lumina would seek to establish an impact investing arm making about $5MM a year in new investments.

Implementation: 2015 to 2019—Lumina Impact Ventures



In 2015, as in 2019, first Lumina's core staff conferred and planned; then, the Board reviewed and approved the new plan; then, the first action item was: find leadership. As the March 2015 memorandum noted: "Work is underway to recruit for a Director of Strategic Social Investing". This work—who they hired and how that person's role within the organization was presented, both to the new hire and the rest of the staff—would be a decisive and defining first step that crystallized planning into reality.

In 2015, the search led to John Duong. Duong's background spoke to what Lumina sought to achieve: he was coming from five years' work in impact investing at the W. K. Kellogg Foundation, another major philanthropic organization branching out into this new activity. He'd worked on Wall Street before that, in mainstream finance. He was a potential rainmaker hired to use his experience to bring in deals that were suitable to Lumina's goals, execute those deals, work with investees to help them grow, and be an ambassador as Lumina sought to project its capacity for leadership into this new tool in the social sector.

Integration

The new initiative was rebranded Lumina Impact Ventures (LIV) as part of its reinvention, and it "was supposed to be integrated," Duong remembers. "That was always the plan." Duong's understanding was that he was hired to "leverage the PRI tool to drive investments and to build out a strategy that was much more integrated with the foundation than what had been done before."

The March 2015 memorandum reflects this understanding as well, noting that **"integrating strategic social investments with Lumina's strategies and functions"** was the first "key principle" to "operationalizing" the new function; and, indeed, "critical to its success."[8] Lumina's leadership at the time are equally consistent in recalling this commitment, which Holly McKiernan summarizes by observing that impact investing was:

> Not to be a tub on its own bottom. Not to have its own strategy...but rather to be an approach that accelerate[d] the foundation's fundamental strategic work, [its] programmatic work through targeted investments.

Lumina had considered non-integration; it had thought through the pros and cons of allowing impact investment to function independently. But Merisotis, McKiernan, and Lumina's leadership remained committed to bringing it into the fold. "We said, 'Look,'" Merisotis remembers, "we are standing this function up, but the idea behind the function is that it's got to integrate with the mission and the same goals and outcomes as the rest of the organization."

In practice, this started with intra-organizational outreach. Duong put together a team of "cross-functional representatives...that would basically have an opportunity to see all of the investment opportunities that came through." This had the joint purpose of familiarizing *them* with the workings of the investment process and familiarizing *Duong* with the expertise and input the foundation's staff held, and how best to bring that expertise into the vetting and investment process.

Elizabeth Garlow was hired in February 2017 as an investment officer and Duong's *de facto* deputy. She remembers this institutional education as ongoing at the time she was hired and continuing throughout her time with Lumina. Her colleagues in grantmaking were:

> intrigued to learn more and wanted to better understand, like: "What's the foundation doing around impact investing, and what does it even mean to 'review' an investment?" [They] would be like, "Wow, you wrote a 50-page memo for an investment. That's longer than we write up for grants." So... there was this kind of like, "Whoa, like this is a totally different process."

Garlow goes on to list the ways that Duong and she sought to not only *inform* their colleagues, but also to bring Lumina's grantmakers and researchers into active involvement with LIV's investees. They wanted to help "grantmaking colleagues [understand] the mission-oriented aspect" of specific investments to "find ways to plug [these colleagues] in and give them opportunities to also serve in an advisory capacity, or serve as a board observer with those companies," thus reinforcing "the linkages between what those companies were doing, and then what the overall grantmaking strategy was."

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Investment philosophy

In October 2015, Duong gave a presentation to the foundation on the impact investing landscape and his plan for engaging it. In it, Duong again identified integration as one of the places "Where We Can Lead", asserting Lumina's capacity to serve as "the example for impact investing that demonstrates full integration towards one common goal".[9]

What follows is a chain of strategy and execution that largely flows from the shared intention, at least at the outset, to integrate LIV with the broader foundation. This commitment drove LIV's goals; it drove the parameters by which LIV considered early- or late-stage investments, the capacity Duong believed he would require to implement this plan, and the *form* of investment and sector-focus which LIV ultimately engaged.

It makes sense, therefore, that Duong—in that same October 2015 presentation—offered this parting thought on LIV's investment parameters at that early stage:

"Flexibility—we must adapt and learn as we go".

Over the rest of 2015 and much of 2016, Duong and LIV settled on an investment portfolio that targeted equity investments in early-stage companies in education technology.

Focusing on seed-stage and other early, pre-growth opportunities allowed Duong to leverage the comparatively small capital base that Lumina had allocated at that time to investment. Courtney Brown notes candidly that "I'm not sure we have enough funds to actually make an impact in later stages." It also pushed LIV further in towards functioning as a traditional VC and provided a new learning for Lumina's existing staff; instead of simply focusing on *for-profit* enterprises, as earlier iterations of this investing strategy had, LIV was explicitly targeting startups with scalable growth potential—a new set of opportunities, variables, and challenges to consider.

One key aspect of LIV was its focus on *equity,* rather than debt. "Most of these companies [are] early enough stage that debt is not an option," Duong explains. "They don't have cash flow." This also matched a limitation that Duong encountered in matching LIV's activities with Lumina's capacity. While underwriting loans bears some similarity to underwriting grants, *administering* loans requires a lot of legwork and "We were told, 'hey, it would be preferable if you don't do debt,'" Duong remembers. "We don't have the finance team to support it: trying to collect interest payments, trying to follow up on tracking." And since LIV did not itself have much capacity beyond Duong's and, after February 2017, Elizabeth Garlow's time and attention, LIV's scope was defined by the larger organization's capacity and ability to share busy human resources.

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The focus on education technology arose, similarly, as an effort to optimize on resources and execute on the mandate to build the post-secondary educational "ecosystem" with LIV's suite of investments. "We chose technology because it's the most scalable type of investment that is less capital intensive," Duong notes. "Edtech" companies were facilitators, force-multipliers: their products and services held the potential to empower the individuals Lumina wanted to serve as part of the organization's broader Goal 2025—often by strengthening the educational institutions working to educate these populations with more tools for *their* toolkits.

Impact

Portfolio

One question at the start was a simple one: would LIV find investments? Were there start-ups out there that fit their criteria? Early-stage companies looking for equity investment, whose product or service was tightly aligned with Lumina/LIV's mission and mandate, and which had the potential to *both* enrich the post-secondary educational market in a material, scalable, even systemic way *and* provide Lumina, as an investor, with a favorable return.

The answer to this came quickly: *yes, there were.*

Appendix F provides an outline of LIV's portfolio as of Q3 2020. By that point, LIV had made 16 investments, 14 of which were active. LIV's first investment, made in 2016, was in Credly. Credly seeks to create a rigorous digital credential network that offers training programs, professional associations, and institutions of higher learning the chance to create digital badges that these institutions and their students can use to increase the visibility and value of various training courses and modalities.

Another early investment was in CareAcademy, on whose advisory Board Holly McKiernan sat. Care Academy "balances mission and margin," in the words of its founder Helen Adeosun, in providing "online professional development and upskilling for the direct-care workforce."

John Duong and Elizabeth Garlow sat on many of these companies' advisory boards as observers; in a few cases, such as McKiernan and CareAcademy, other members of Lumina's staff performed this role. (It is important to note that Lumina only takes advisory board roles with its investees; it never serves on an investee's governing or fiduciary board.) Duong and Garlow—in their performance as Board observers, as well as continuous engagement with investees—established productive relationships with many portfolio firms. While there was some variation with respect to *how* involved Duong and Garlow were, the founders from this period are uniformly complimentary of their acumen and accessibility. Melvin Hines, CEO of Upswing, is enthusiastic:

> Our expectations were really exceeded...we didn't expect all the connections and things like that. Even before the investment, John put us in front of a lot of different people by having us speak on panels. He had us do an interview for [Focus magazine, Lumina's periodic in-house glossy publication], which gets sent out to all the colleges, things that just added more recognition…We saw [Duong and Garlow] just as people that were intricately involved in the success of Upswing.

Adeosun, of CareAcademy, tells a similar story, noting how LIV "tapped us into" a variety of concrete "non-equity-based funding opportunities" when Duong "made introductions to some of the other investors [that ultimately] made an investment, really debt, in our bridge round."

Social Impact

LIV sought to capture, through qualitative and quantitative means, its efficacy in making investments that would further the objectives of Goal 2025. In many respects, it was effective in doing so. Each investment was made with an "impact thesis"; each investee's activities were tracked for both financial performance and selected impact metrics. Appendix F shows the report's summary of these metrics, which details the number of learners each business impacted and breaks down these customers/learners by racial and age demographics.

LIV also, of course, sought to track how well it performed in the specific remit(s) with which *it* had been tasked. It quantified other investments in its investees, attempting to capture a sense of how much additional capital its activities might be facilitating. It also made investments *outside* areas of Lumina's traditional activity in start-ups that were, nonetheless, potentially important players in post-secondary education. "Many of these start-ups," Jamie Merisotis observes, "are not actually in the business of credential production. They're providing services and tools to help people on the pathway to the credential, not necessarily actually helping to generate them...One of the things I'm proud of is the fact that we cast a wide net. We cast the net pretty wide on information tools, some actual curriculum tools, and then things like Credly that were aggregation."

Another form of impact diversification that LIV brought to the table was even simpler: the chance to facilitate the success of businesses whose activities could serve Lumina's mission while functioning as effective (*i.e.*, profitable) for-profit enterprises. For example, "EduNav was not primarily created to be a mission-driven socioeconomic impacting company," says Andrew Brown, CEO of the automated degree planning platform. "It was founded by a serial edtech capitalist entrepreneur who saw the opportunity to build a software solution that would help students graduate faster...Even though the company was established as a for-profit company with the goal of making money for investors, the company's mission was highly complementary with a mission of 'doing good.'"

Taking this position meant balancing Lumina's role as a socially driven foundation and its desire to participate as an active, profit-seeking investor. Which was, in some cases, its strength. Edovo, another portfolio company in which LIV invested, is "an incentive-based learning program covering education, vocation, and treatment" for America's incarcerated population. Because of its industry and its own history, Edovo faced challenges raising capital from the socially oriented investors who might have been expected to take interest in its business model. LIV was able to offer value—beyond just their investment—in helping with this:

> John Duong [saw] beyond where Lumina as a standard nonprofit sometimes could feel restricted… [was LIV's investment] catalytic? Unquestionably yes, especially in the philanthropic side of the house and philanthropic debt later...Lumina is a brand that some people recognize in the investment world themselves…[and] in my shortlist in talking to investors, we'd say, "We're backed by family offices and foundations like Lumina Foundation." That was one I listed almost every time because I wanted to clarify, "This is who we are, and we're backed by them because as a stamp of commitment and approval that we are impact-focused, and it's PRI."

Further, LIV provided this support to many firms that embodied Lumina's commitment to diversity, equity, and inclusion at the founder/CEO level. Not only were most of the businesses it invested in geared towards providing products and services for underserved demographic communities, "we made racial equity...central to the work from the beginning," Merisotis argues, "particularly as it relates to the leadership of these companies." Most of its early investments were founded by persons of color, and several had founders who identified gender female. "That felt really important and good for the outcomes we hoped to achieve," acknowledges Merisotis.

Thought Leadership and Network

John Duong and Elizabeth Garlow, representing LIV and therefore Lumina, were actively involved in building a place for the foundation in the impact investing space that reflected the thought leadership that characterized its reputation as a grantmaker and convener.

Duong assembled convenings that gave "our brand a lot of credibility and [built] relationships." One such was 2018's "LIFTed" (Lumina Investing in Future Talent and Education) convening in New York City, at which "both social enterprises and nonprofit entities doing effective work" were honored with

$25k cash rewards, “in-kind support”, and—probably most importantly—exposure.[10] “100% most incredible events that I’ve seen ever put on,” enthuses Brian Hill of Edovo. “It was the who’s who of foundations. The group was great about getting us front and center, making sure that we had access to foundations.”

Duong and Garlow also “were spending a third of their time,” estimates Brad Kelsheimer, “with family offices, with other foundations...advising them on, ‘How do you bridge that gap?’” ‘That gap’ being this divide that Duong, Garlow, Merisotis, McKiernan, Kelsheimer, and everyone else at Lumina was working to cross—the lack of familiarity and even uneasiness that many mission-driven organizations were discovering in themselves as the sector collectively moved to engage with these more profit-driven models. Duong, in Kelsheimer’s view, was “knowledgeable in the area. He understands the tension and frustration.”

All of this was in addition to the travel, meetings, and relationship-building that is typical for many direct investors. Duong and Garlow actively met and vetted potential investees, worked with existing investees (including, but not only, in keeping with their Board observer duties), and they established productive working relationships with like-minded investors. Matthew Greenfield of Rethink, quoted above regarding CareAcademy, felt the relationship between Rethink and LIV was a beneficial one that engaged both Duong and Garlow’s personal efforts and Lumina’s broader assets. “In terms of convening, they have held gatherings…that have been very valuable to me in terms of making relationships across several domains…[Duong]’s a thought-leader, as are all the senior leaders at Lumina in different ways. And so, he brought me along for that kind of thought-leadership activity, and I met other interesting people” at conferences hosted both by LIV specifically and Lumina’s foundation convenings.

Jessica Hinkle of Strada Education Network, a cousin-organization to Lumina itself, also found that LIV effectively entered the collaborative spirit of this intersection of mission and hard-nosed investment. “There was a lot of sharing of opportunities and looking at things together,” she remembers, “because unlike traditional venture capital firms, we’re not really competing. We really see ourselves, really, as more being able to collaborate in the impact investment space.”

Iteration: 2020 and the Future—Challenges, Questions, and Potential

Iteration: 2020 and the Future—Challenges, Questions, and Potential

From 2015 to 2019, LIV succeeded in many respects. Yet when John Duong moved towards exit in late 2019, leaving his position in February 2020, and when Elizabeth Garlow left Lumina a few months after that, neither exit was a surprise. Neither departure was abrupt or acrimonious, but both were consistent with how relations between LIV—as it existed in this first version—and the broader foundation had evolved.

What happened?

Integration

One thing that did not happen as leadership had hoped was integration.

“[LIV] really was still functioning somewhat separately,” Jamie Merisotis acknowledges. “Even though it wasn’t an independent entity, it was functioning separately.”

Some of the obstacles, judging from staff accounts, reflect aspects of Lumina that are familiar from many large, segmented organizations. “People work in silos,” Courtney Brown admits, “and they’re all working very hard, and you forget to reach out horizontally and you focus just on your own vertical. We can all do better about reach out across, rather than just within...I just think it’s unaware[ness] of how helpful that might be. “

Despite this assertion, however, Brown herself is joined by other Lumina team members, by John Duong and Elizabeth Garlow, and by LIV’s investees and collaborators in voicing the perception that misunderstandings and frictions idiosyncratic to this specific situation also arose in a way that altered the course of this iteration. The collision of cultures, outlooks, and subject matter challenged everyone involved. Even candid interviews cannot reveal precisely what was going on inside people’s heads, of course. But, at least in the accounts given, common trends emerge that seem to indicate perceived differences in goals and methods; differences that may have challenged LIV’s integration efforts.

“What I observed in 2019,” recalls Jessica Hinkle of Strada, on the scene as a peer entity to LIV, “was I think LIV being a little bit of a cowboy. Going out there and making a bunch of investments, and really doing its own thing and trying to make a claim, stake their place in the impact investing universe, and then try to bring the rest of the Foundation along.”

(In)consistent Engagement

The cross-functional teams; the attempts to build connections with specific grantmakers; the efforts to create a synergistic whole between LIV's investment activities and the foundation's *grant making* and *research activities* "unfortunately didn't work out so well," John Duong says. "Even though the intent was there because people were just not showing up for meetings," even after indicating acceptance to the invitation.

Duong's point isn't that Lumina's staff didn't know how to manage their time; rather, it is that priorities and obstacles stood between the grantmaking and research bodies of the organization and this new, investment-driven initiative.

Duong's cross-functional meetings were, as he says, not well or reliably attended. And the move to engage Lumina's grant making staff and general leadership by bringing them in as Board observers was also of limited impact. Sometimes, it was disrupted by the formal withdrawal of the Lumina staffer in question; Brian Hill of Edovo, who is positive about what he describes as a generally *involved* relationship with LIV, notes that when a grant making Lumina staffer joined "we were very excited to have her join the Board, but she came from the purely nonprofit background. Shortly after joining, she stepped off the Board. I think her feeling was that she couldn't add a lot of value since our Board discussions were very tactical and business-heavy, with most of the time focused on financial and strategic growth given our early stage."

It was important for Merisotis and the rest of Lumina's leadership to understand the reasons for disconnections such as this. It was possible that the foundation's busy professionals were simply aware—as some of the investees have described—in the limitations of their own ability to contribute to these efforts. These limitations could then become self-fulfilling and -reinforcing if Lumina staffers curbed their participation because of them, leaving them unfamiliar with the details of LIV's work and the operational challenges of its investees, and thus less able to materially contribute to the *next* LIV investment, et cetera.

Hinkle, who observed LIV's activities as an experienced third party, provides some ballast for this. "Participating on these boards, you're really just talking about the specific company issues and company dynamics. I don't think that folks on the grant-making side have a ton of context for a lot of those decisions. The conversations that happen during these board meetings have so little to do with impact," which could have even reinforced an impression amongst Lumina's grant making staff that these investments in for-profit entities were an awkward fit for Lumina and its qualified, effective, *philanthropic* professionals.

It is also possible, as both investees and staff members acknowledge, that this doubt went deeper: that Lumina's staffers did not see LIV's work as being mission-focused, or at least not as mission-focused as Lumina's traditional grantmaking activities. Based on their own accounts, Lumina's staff did appear to remain unconvinced regarding the value that LIV and its portfolio firms brought to the organization's fulfillment of mission. And while there is no question that the LIV team articulated

and to some extent executed on an active, tactical plan to engage their foundation colleagues in the other parts of the organization, there is also little question that—for whatever reason—neither the substantive lessons nor the "optics" of that outreach was fully conveyed.

Versions of this sentiment have been expressed by Lumina staff and leadership throughout this case. A central disconnect appears to have been the amount of time Duong and Garlow spent traveling and networking. While the need for this was nominally recognized by all, its actuality—and how different that actuality appeared from the work processes of grant making—appears to have cleft a considerable rift between LIV and the rest of the organization.

Brad Kelsheimer spoke highly of how effective and expert Duong was in working with other investors to discuss "bridg[ing] that gap"; but also, in a proof of the gap's persistence, notes the pair spent "I would say...a third of their time" on such conversations, as part of an overall discussion of LIV's non-integration. Hinkle, a third-party observer with perspective on the gap, has already been quoted observing that LIV seemed to be "doing its own thing" and "a little bit of a cowboy" within the broader organization.

Other staffers are less circumspect than Kelsheimer, expressing sharp skepticism of a networking and deal-flow strategy that they saw as unfocused, as being about "going after shiny objects that look like they're related, but really aren't related at all" to Lumina's mission; of LIV's team as being "really into getting on planes, going to conferences, chasing deals, doing deals...that is not the only way to think about using this kind of tool."

Clearly, some Lumina staff *did* feel that this "tool", at least as the LIV team used it, was not working for them.

Finally, there is the root disconnect that this discussion has thus far skirted around. It is almost certainly true that every account herein holds some truth: that specific actions and approaches taken by LIV contributed to a disconnect between LIV and Lumina grantmakers; that Lumina's own evolving experience in impact investing—especially of this kind—contributed to its staff and leadership's response to the reality of this plan being implemented. It is also true that all these individuals were working in the context of an organizational and sectoral culture that, in many respects, started them off at odds.

The sense of potential competition may have gone deeper than simply internally vying for funds. Duong tells the story of a happy exception that, in this case, proved the unhappy rule. He speaks of a Lumina staffer, a grantmaker, who initially "saw an [LIV investee] as competition, because the investee was competing against the nonprofit that she had backed as a grant." Then, however, this grantmaker "ended up being one of the biggest advocates for [LIV], because she saw that some of the investees [were] actually driving and helping her grantees and [that] in fact, it was very complementary" to the work she and the other grantmakers were doing.

This, of course, had been the idea all along: that LIV could make investments that were complementary to Lumina's other work — not only internally, in terms of balancing the foundation's overall portfolio of activities, but externally, in terms of the kind of businesses and services whose work the foundation could support. And much of Lumina's leadership did see it this way; at least, as a goal partially achieved, or potential. However, the opposite just as clearly took hold within the organization; a skepticism about putting Lumina's time and resources into this strategy, into these companies. "We want to be investors and we want to do all that is normal and appropriate to help [investees] succeed," one staffer notes, then continues, "but we don't want to be on the marketing team."

"This is not easy work," Jessica Hinkle summarizes. Operationally and culturally, for a mission-driven philanthropic organization to incorporate an investment operation with a venture mindset is "really, really hard, hard work." Because there is "that tension...this conflict of interest, almost, between the two types of entities," someone "really [has to] play a middleman role and be able to connect the company with other parts of the foundation, and make sure that you're continuing to follow up about, 'is there a relevant connection between the company and that part of the foundation, whether it's research or a program officer?'...You make the investment, introducing the investment to the foundation, helping the foundation to understand the potential role that they could play with the company, so that people are familiar with it, not just making an introduction here or there." And unless the "people on the foundation side...have this as one of their priorities," all these efforts may still come to naught.

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(Investment) Philosophy

"People didn't quite understand what [LIV] was or how it was different from grant making," Courtney Brown admits, "or how it would be helpful to their work or how they could be helpful to the work. Many of these [investments] are going to fail and should fail...I don't think that's a downside people within Lumina [understood]."

PRI: Competition

Lumina's decision to categorize impact investing as PRI, rather than MRI, was important—as many have observed throughout this case. It legitimized LIV's efforts internally and externally, affirming that these were meant to be "real" social investments—part of Lumina's core work of fulfilling mission.

This importance had challenging dimensions as well. It would not have been lost on any existing member of Lumina's staff; indeed, it might have been the first new fact that staff would observe. Jamie Merisotis gingerly frames this tension when he notes that the specificity of LIV's allocation—$50MM over 10 years, or $5MM in annual investments—was presented "partially in order to anticipate the issue of competition, to help people understand the scope of this and [...] [reduce] the threat, if you will, [so] that the people didn't think, 'okay, this is going to become 50% of the budget.'"

This was clearly a well-considered mitigation; unfortunately, it also proved inadequate. On both sides—LIV and grantmaking—the emergence of just the kind of competition Merisotis was concerned about is acknowledged. "No question about it," Brad Kelsheimer states. "It is competitive for funds. I think that's been a big challenge at Lumina."

John Duong experienced this as a "competitiveness internally, in terms of people wanting to focus on their area" and approaching LIV with, at best, caution. "I will be honest: when we first came in, I had some pretty negative responses like, 'Look, you're taking money away from my budget.'"
Much of this reticence seems hard to shake off. "A downside of just doing this kind of investing," Courtney Brown argues of the choice to make impact investing a PRI function, "is it does take money away from the grant making on these riskier investments, and so a downside could be seen as, 'could those dollars be better used elsewhere?'"

Mismatched Time Horizons: Grants vs. Investments

"Investing is more long-term," says Jessica Hinkle of Strada, "whereas more of the philanthropic grant making is using your operating budget. So [grant making is] just seen as an expense. I think that the PRIs that Lumina makes through LIV, they're not an expense, because probably at a minimum, you'll get your capital back."

But, as Hinkle notes, not for a long time. Potentially quite a long time.

This may have been central to the disconnect between LIV and grantmakers: a structural gap that was hard to surmount and that—persisting unexplained—undercut the foundation staff's ability to see LIV's value. "It does have to sit in this space in the middle," Hinkle goes on, articulating the trickiness of threading this needle. "Where it is fully acknowledged that it's neither market-rate investment nor grant. It's still going to compete with grant making. Which is going to have the bigger short-term impact? Probably the grant making because it's probably supporting specific program services."

Impact

Portfolio

Having *confirmed* the hypothesis that there appeared to be investable opportunities that fit Lumina's criteria, this first round of investing offers equivocal evidence about the performance of those opportunities. According to its own tracking, LIV was running a multiple of less than one on its invested capital after five years of activity. Whether this lack of realized returns was due to the limited time horizon (several of LIV's portfolio firms held potential that might not yet have been realized), a flaw in LIV's deal flow and vetting process, or a fundamental miscalculation in goals is as hard to determine for LIV as for any investment fund. But, as of 2020, it can be said that LIV had not yet validated Lumina's assertion that it sought to, and *could*, achieve even concessionary returns with this double-bottom line, mission-driven investment philosophy.

There is also the evident fact that, while most interviewees *don't* cite a total lack of investable opportunities as an issue, it is hard to contest Courtney Brown's conclusion that, "I would say based on the data, just looking at data, LIV has had a really hard time actually spending the money. So, it would be a hard sell for me to say LIV needs more money when they haven't spent their total amount so far." As in the case above, there are many potential reasons—laced throughout this case—that might have driven or slowed LIV's actual investment.

Social Impact

Information on the investments' social impact is similarly inconclusive. There were many intuitive and qualitative arguments to be made in *favor* of these investees' impacts. But even the *outcomes* were hard to capture beyond high-level demographic data on customers/students; the harder challenge of assessing *impact*—whether these effects might have been achieved, possibly more efficiently, *without* LIV—remained well outside the scope of Lumina's bandwidth at that time.

It would be reckless to manufacture strong counterfactuals regarding complex organizational dynamics like those described in this case; equally, however, the potential impact of any single factor should not be overlooked—especially one as central as "impact" to "impact investing". Lumina was—and remained—aware of LIV's limitations in this area and that one of its main avenues for improvement could be in capturing the change making potential of for-profit investees. If LIV had been more proactive in pursuing this, or if its initial investees had simply been able to capture more data on their impact, this could have provided a potent tool for convincing Lumina's grantmaking staff of the importance of doing impact investing.

Courtney Brown has responsibility for tracking impact, and she notes the ongoing challenges of capturing granular data. "Because it's an early investment," she says, "they're not quite there yet, or they don't have their systems in place yet...A lot of times because they are the early investment piece, it's hard to get good data from them because they're still trying to figure out their product or service, and they're also trying to just expand enough that they actually have meaningful data to report back to us."

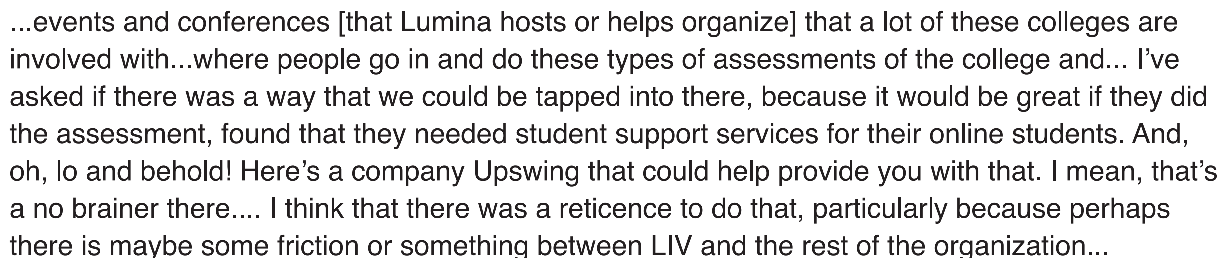
However, there is also a plus side to this formative aspect of investees. "The good thing about setting those metrics up early is as they get their systems in place, they can use these metrics to guide their work moving forward," Brown goes on. "So, if we say, 'Here are the things that are important to us. We want persistence rates disaggregated by race ethnicity,' then they see that that's an important thing. And so, they work to deliver those."

Brown is optimistic that crystallizing institutional efforts around this will, in future, lead to richer data. "We are collecting metrics from each partner, and part of the upfront planning is determining what data points are possible to report on and at what intervals." This in turn will make it possible for Lumina to make a more robust determination about whether and how its impact investing strategy is affecting core demographics in its space, and how its efforts therein compare to the results produced by its traditional grant-making.

Thought Leadership and Networking

From the investees' perspective, the lack of integration between LIV and the grantmakers represented a tantalizing missed opportunity. For these entrepreneurs, who know they need to leverage every advantage available just to keep their businesses intact, this absence could be frustrating. "One of the areas that I think I expected a little bit more," admits the founder of one LIV portfolio company, "was navigating the Lumina organization writ large, which includes the grant making side, which includes the research side, the policy side...I would say historically, there's been more of a disconnect between Lumina, the investment org, and Lumina, the grant making and research and policy org. I think the synergies between the sides of the house could be really transformative if they were a little bit stronger."

Melvin Hines of Upswing, who in general expresses great satisfaction with LIV as an investor and partner, also felt this frustration. "They're just such a huge organization that there's so much that we could benefit from," he says, speaking of LIV within its broader context of the Lumina Foundation as a whole:

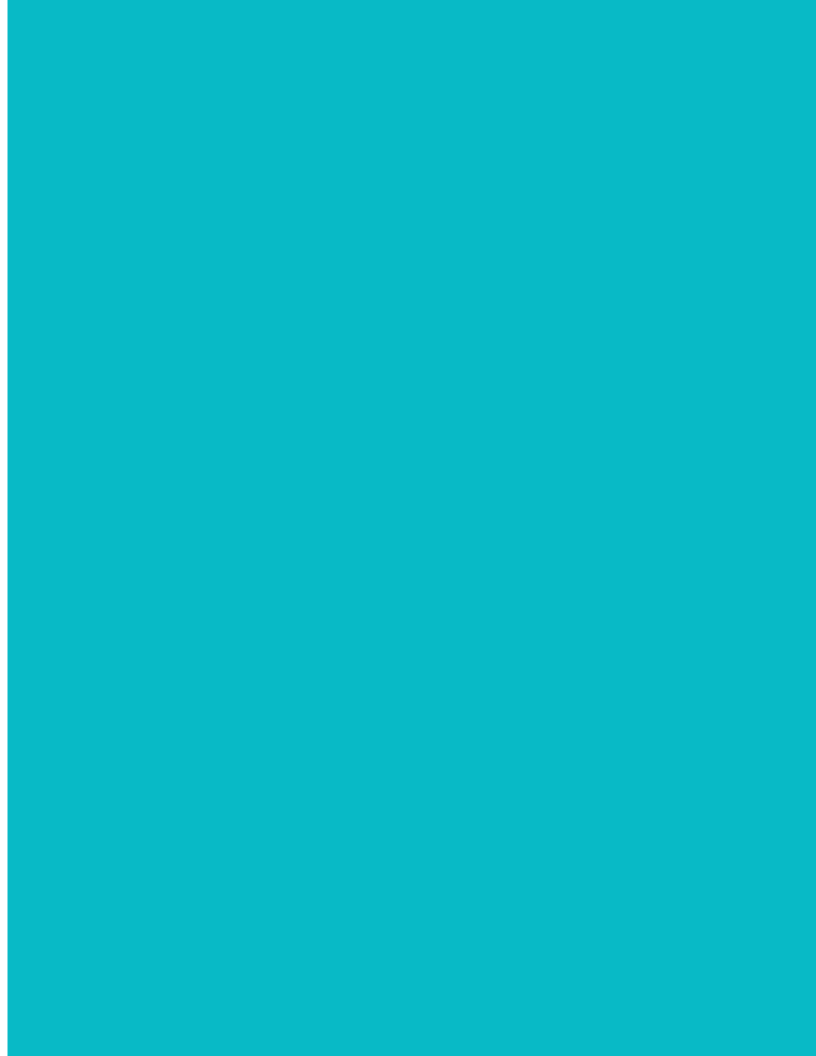


> ...events and conferences [that Lumina hosts or helps organize] that a lot of these colleges are involved with...where people go in and do these types of assessments of the college and... I've asked if there was a way that we could be tapped into there, because it would be great if they did the assessment, found that they needed student support services for their online students. And, oh, lo and behold! Here's a company Upswing that could help provide you with that. I mean, that's a no brainer there.... I think that there was a reticence to do that, particularly because perhaps there is maybe some friction or something between LIV and the rest of the organization...

From a more general perspective, however, it's important—even in a discussion of challenges and possible missteps—not to ignore the novelty and measure of what LIV *did* achieve. Investees throughout this case have noted the power and potential of where Lumina Impact Ventures and Lumina grantmakers were able to join to bring exposure and contacts to both specific investees and this space generally. And both Jessica Hinkle and Matthew Greenfield—experienced outside observers—praise the concept behind LIV's efforts at thought leadership as well as aspects of its execution. As Hinkle says:

> What Lumina did...it created this capacity and it was more public about the investments that it made…[and] Lumina Impact Ventures recognized that there was an opportunity, not just to invest and to put their PRI dollars behind it, but also to try to promote that entity through things that Lumina would write, or to be able to support it with other evidence that Lumina Foundation provided through their research, and then using that research to help bolster the company. So, I think, I do really feel like they were pioneers, at least in the ed tech investing space. To be more of an active voice, as opposed to just a passive foundation investor that was dabbling in direct investments.

Conclusion: The Future of Impact Investing at Lumina



Conclusion: The Future of Impact Investing at Lumina

Jamie Merisotis stared down at traffic, at red-blinking taillights.

After the departure of John Duong and Elizabeth Garlow, Merisotis and the rest of Lumina's leadership had taken the opportunity to pause and reassess. They'd thought hard about how to approach impact investing, about what stance towards the function would serve Lumina overall. And they'd thought about how to achieve that vision.

There was a consensus that what LIV had become under the previous dispensation was not the right fit for the organization. For whatever reason—and there seemed to be reasons to give on both sides—LIV had not meshed with the foundation's grantmaking and research apparatuses and had been identifiable internally and externally as an independent actor. Most of the leadership felt that LIV was too disconnected, too independent.

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Reconsidering things throughout late 2019 and early 2020, they decided to return to the principles and goals that had brought Lumina to impact investing in the first place. They did so in the context of a changed marketplace; when Lumina began exploring impact investing, there were few investable opportunities—now their space was active, with many more entrepreneurs. In this evolving market, the priorities of Lumina's impact operations remained clear at a strategy level, if not yet in the details of implementation. In future, Lumina's impact investing would seek:

Sustainability

- Financial: a return that, at least, funded its own existence, *and*
- Operational: a place within the larger organization, and a share of the larger organization's resources, that was viable and mutually reinforcing for all of Lumina's staff in their various capacities and lines of activity

Credibility: "We wanted to be credible," summarizes Brad Kelsheimer, "whether we were talking to the philanthropic world or the investment world." This meant

- An active portfolio of viable investments
- Engaging with other investors in the space; and, eventually
- Exiting or otherwise making good on investments

Influence: Lumina would seek investments whose impact was focused on its mission-core field of post-secondary education.

- It would facilitate the transformation and growth of that industry with targeted equity investments that held high potential for growth and knock-on benefits
- Thought leadership was in Lumina's organizational DNA, and its leadership and staff felt it could and should play a similar role in "impact investment" to the one it played in grantmaking and advocacy. This would mean a certain amount of ambassadorship, although balancing this so that it was Lumina being represented—rather than a single function, running fast on its own—was one of several challenges that only implementation could solve

Catalyzing capital: returning to one of the core logics behind mission-driven organizations' engaging in impact investing at all, Lumina would actively work to translate any success it achieved *per* the above—as a financially sustainable, credible fund influencing the practice of socially motivated investment and the markets in which its investments were active—into leverage to utilize in commercial, mainstream capital markets. It sought, in other words, to bring more capital into the space, not just move the existing base of philanthropic capital around. It sought to attract partners and investors who might not have considered such investments at all, absent Lumina's proven success, example, and possibly formal partnership.

Merisotis knew that many questions remained unanswered. "In the first few years," he says, speaking from experience, "it is absolutely an experiment in a lot of ways. You are learning as you go, so you're building the bicycle as you're riding it."

He was confident, however, that the new director was prepared to carry out this vision. He was confident that he and his leadership team were aligned. Together, they could handle the central outstanding questions:

What were the organizational causes that contributed to the first iteration of LIV's failure to integrate? *Would* this new direction, and new director, address those causes?

How, ultimately, could they capture *impact*? They needed to tune the investing part, of course; but they would also need a way, going forward, to more rigorously assess whether and how these investments were materially contributing to their mission.

And Merisotis knew that, as CEO—in fact, as part of the job of any Board member, any leader within Lumina—the most central questions were in constant background: was it right for the investment function to be integrated, at all? *Should* it simply be its own, independent function? If not, what would integration look like? And then, most broadly: was impact investing something Lumina ought to be doing at all?

Merisotis knew they had thought through their current answers. He believed in the course they had mapped, how they'd mapped it.

The only thing left was to continue the journey.

Appendices

Appendix A: Case Methodology and List of Interviewees

The qualitative and quantitative data used in this case were gathered through the following means throughout 2020 and 2021.

In-depth interviews were conducted with Lumina leadership, as well as with experts at peer organizations and entrepreneurs in whose businesses Lumina had invested. These interviews were held digitally, and transcribed. All direct quotations cited in this case study were vetted by interviewees prior to publication.

Some materials were provided by Lumina, including internal memoranda and presentations.

Secondary data was drawn from publications, **public databases, and other publicly available sources.**

A full list of interviewees is as follows:

INTERVIEWEE	ORGANIZATION	TITLE
Lumina Staff		
Brad Kelsheimer	Lumina Foundation	VP and CFO
Chauncy Lennon	Lumina Foundation	VP Learning and Work
Christa Velasquez	Lumina Impact Ventures	Director
Courtney Brown	Lumina Foundation	VP Impact and Planning
Holly McKiernan	Lumina Foundation	Chief Operating Officer
Jamie Merisotis	Lumina Foundation	President and CEO
Julie Shewmaker	Lumina Foundation	AVP Finance and Accounting
Investees		
Andrew Brown	EduNav	CEO
Brian Hill	Edovo	Founder & CEO
David Helene	Edquity	Founder & CEO
Helen Adeosun	Care Academy	Founder & CEO
Jackson Boyer	Mentor Collective	Co-Founder
Jake Soberal	Bitwise Industries	Co-Founder & CEO
John Katzman	Noodle	Founder & CEO
Melvin Hines	Upswing	Founder & CEO
Other partners		
Elizabeth Garlow	New Practice Lab	Acting director
Jessica Hinkle	Strada Investments	SVP Strategic Investments
John Duong	Kind Capital	Founder and CEO
Matt Greenfield	Rethink Education	Managing Partner

Appendix B: “Wicked Problems” and “Deliberate Leadership”

One framework for approaching ambiguous and multifactorial problems, “Wicked Problems”, is a set of tools and principles called “Deliberate Leadership”.

Wicked Problems don’t lend themselves to simple solutions; they are messy and systematic. The 2008 global financial crisis, the global climate crisis, and the COVID-19 pandemic are all examples of Wicked Problems, and each reveals the interconnectivity and interdependence of our human and environmental systems.

A hallmark of these challenges is that they aren’t just complex, but that solving one may deleteriously affect another. In “Dilemmas in a General Theory of Planning” (1973), Horst W.J. Rittel and Melvin W. Webber lay out ten characteristics of problems like this.

Characteristics of wicked problems:

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1. They have no definitive formulation.
2. They have no stopping rule, or are never completely solved.
3. Their solutions are not true-or-false, but good-or-bad.
4. The repercussions of a Wicked Problem’s solution can never be fully appraised.
5. Every attempted solution counts significantly, leaving traces that cannot be undone.
6. They do not have an exhaustive set of potential solutions and it is not possible to prove that every solution has been identified and considered.
7. Each one is essentially unique.
8. Each one can be considered a symptom of another problem.
9. One’s choice of explanation for a Wicked Problem determines the nature of the problem’s resolution.
10. Those who attempt to solve them are held liable for the consequences of the actions they generate.

Deliberate Leadership is a response to Wicked Problems that is based on proven business and social sector theory and practice. It blends recognized adaptive leadership strategies that create lasting impact both within the communities affected by systemic challenges and within the organizations trying to tackle them.

Deliberate leaders consistently display the following seven core characteristics, or “the 7Cs”, to maximize learning while maintaining flexibility:

- **Courage:** They embrace risk and live with ambiguity. Deliberate Leaders recognize that simple solutions are insufficient to address complex challenges. They also realize that risk is inherent to Wicked Problems: solutions must be tried, tested, and allowed to evolve.
- **Collaboration:** They seek out and listen to divergent viewpoints. Deliberate Leaders recognize that collaboration may be slow and uncomfortable, but is essential to understanding options, gaining new knowledge, and building powerful solutions.
- **Community:** They build solutions together from the ground up. Deliberate Leaders recognize that answers to tough issues may already reside in elements of shared practice. They put people at the center of decision making.
- **Candour:** They speak and hear the truth about what is working and what isn’t. Deliberate Leaders embrace failure and success, internally and externally, to allow for recalibration and innovation.
- **Creativity:** They strive to imagine a new future and move beyond the assumptions of the past. Deliberate Leaders look for “big ideas” and evolving practices.
- **Capital:** They examine how financial and non-financial resources are invested and how impact is assessed.
- **Compassion:** They understand how deploying empathy and partnership, rather than ego, can positively impact the power dynamics within and surrounding an organization.

The 7Cs show some of the qualities that leaders will need to exhibit to better address economic challenges at local, national, regional, and international levels. They will have to create, nurture, and continually reinforce an organizational culture dedicated to open and honest learning and adaptation, communication, and diverse stakeholder involvement. They will also need to develop systems thinking rather than linear problem-solving. Feedback and the inclusion of multiple, diverse voices allows leadership to operationalize the 7Cs and look past *given* circumstances and practice to what is *possible*.

For a visualization of some of these principles in action, please see the exhibit on the next page.

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1.

Step 1: What is the organization's True North?

Questions: What are the values and beliefs that shape the organization's culture, operations, theory of change, program strategies and impact? How do these core values define how the organization learns, grows and adapts to new knowledge, challenges, and experiences? What is the True North on how the organization behaves within and beyond the walls of the organization and its impact on society?

THEORY OF CHANGE
VALUES, BELIEFS, CULTURE
STRATEGIC LEARNING, EVALUATION RECALIBRATION
PROGRAM AND STRATEGY
ORGANIZATIONAL STRATEGY
PROGRAM RESULTS
STAFF, BOARD, PARTNERS, STAKEHOLDERS

2.

Step 2: What is the community-based ecosystem?

Questions: What is the process that the organization uses to map its current ecosystem? How does it define who is in the community and who could be a potential partner?

LAMISI'S HUMAN SECURITY
PERSONAL SECURITY
ECONOMIC SECURITY
COMMUNITY SECURITY
ENVIRONMENT SECURITY
EDUCATION SECURITY
FOOD SECURITY
POLITICAL SECURITY
HEALTH SECURITY
JICA
DWM
NCWD
GIZ
CIDA
GAF
Techno Serve
DISEC
Ghana Police
DANIDA
Women Can
Water Aid
Plan Ghana
DFID
CARE Ghana
NCCE
USAID
World Vision
Gates Fdn
CRS
ADRA
Global Fund
Action Aid

3.

Step 3: Threats and opportunities analysis in community?

Questions: How successful is the organization in planning for both anticipated threats and opportunities, as well as unanticipated ones?

THREAT-OPPORTUNITY ANALYSIS
INVEST
ACT
UNANTICIPATED OPPORTUNITY
ANTICIPATED OPPORTUNITY
PLANNED RESULTS
ANTICIPATED THREAT
RESULTS
ACTUAL RESULTS
UNANTICIPATED THREAT

4.

Step 4: How does the organization share learning?

Question: How does the organization share learning with community – inside and outside?

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Step 5: How is the organization aligned with Community?

Question: How does the organization ensure that the needs and expectations of community are understood and aligned?

THINK EQUAL INTENDED EXPERIENCE
THINK EQUAL OFFERED EXPERIENCE
STAKEHOLDER LIVED EXPERIENCE
STAKEHOLDER EXPECTED EXPERIENCE

6.

Step 6: Reflecting on Deep Learning

Questions: What's next? How can the organization take what it has learned and adapt moving forward? What gets in the way of deeper organizational learning? How is learning accelerated within the organization?

UNDERLYING ASSUMPTIONS/ VALUES, BELIEFS
STRATEGY
RESULTS
SINGLE-LOOP LEARNING, PROGRAM FOCUS
DEFENSIVE REASONING
MUST GET PAST
DOUBLE-LOOP LEARNING, DEEPER ORGANIZATIONAL AND PROGRAM FOCUS

Appendix C: Further Information on Mission- (MRI) vs Program-related (PRI) Investments

Mission-related investments (MRIs) and program-related investment (PRIs) can both serve as categories of impact investment, but the difference between them is important for charitable organizations.

To maintain tax-exempt status, these organizations must make annual charitable contributions equal to a fixed percentage of the total value of their endowment—generally set at five percent. These charitable contributions most frequently take the form of grantmaking, the most familiar activity in which most foundations engage.

This contrasts with investments that comprise the endowment themselves, which are not required to serve any purpose beyond earning financial returns and thus provide the financial base for the organizations' operations and giving.

An organization may choose, however, to impose additional requirements on these profitable investments, perhaps trading some flexibility or profitability to assure a "double-bottom line" financial and social impact; in these cases, the qualifying investments can be called MRIs. The term "MRI" has no legal significance or universal definition; it refers generally to investments that are not made solely based on their expected financial return. For instance, a foundation might designate investments in companies that meet certain labor and environmental standards as MRIs and choose to actively seek out such investments as part of its operations. These investments could take the form of loans, loan guarantees, or equity.

"PRI", on the other hand, is a legal term. Because PRIs can be counted as charitable contributions for the purposes of an organization's tax-exempt activities and status, PRI investments must meet the following criteria:

- The primary purpose of the investment must be to advance one or more tax-exempt purposes of the investing organization.
- Financial return may not be a significant purpose of the investment.
- The investment cannot be used to fund lobbying or political campaign activity.

Reliable, current data on the total amount of PRI funding is difficult to come by. Less than 2% of American foundations make PRI investments at all. Examples of prominent organizations that have substantial PRI investments include the Ford and Gates Foundations, which, as of 2018, had made PRI investments of had made PRI investments of $600M and $1.5B, respectively. Many foundations avoid them, however, focusing instead on traditional grantmaking, because PRIs are complicated to administer and evaluate.

Appendix D: Market Opportunity—Selected Slides from John Duong's October 2015 Presentation to Colleagues at the Lumina Foundation

Lessons Learned from Early Adopters Benefits Lumina

Confidential

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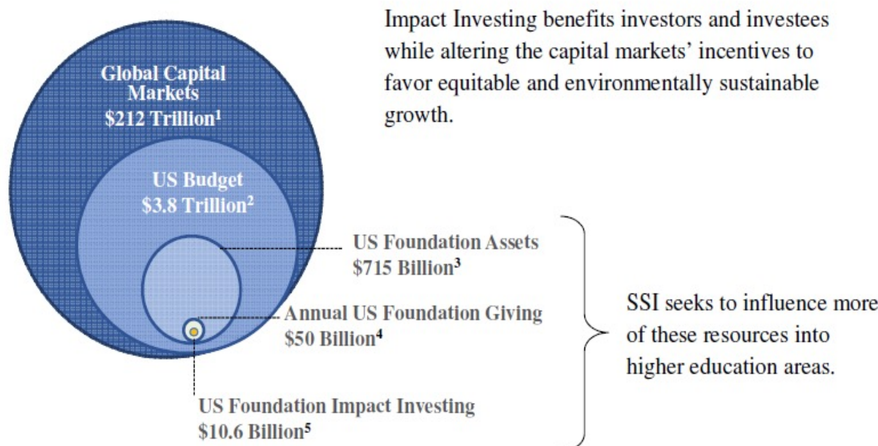
The Leveraging Opportunity



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Source: McKinsey & Company. http://www.mckinsey.com/insights/global_capital_markets/mapping_global_capital_markets_2011
As of 2013. 3. Foundation Center 4. Nonprofit Philanthropic Trust 5. GIIN Morgan 2014MarketSpotlight

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Appendix E: Lumina March 2015 Memo re: "Strategic Social Investments"

MEMORANDUM

To: Lumina Foundation Board of Directors

From: Executive Team

Date: March 27, 2015

Subject: Update on Experimenting with Strategic Social Investing[11]

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Strategic Social Investments Overview

As discussed at the November Board meeting, we have begun building a social investment capacity. You will recall that the role of Strategic Social Investments (SSI) is to identify promising solutions that improve attainment for traditionally underrepresented populations and turn those solutions into scalable and investable opportunities to accelerate progress toward Goal 2025.

This memo provides on overview of the SSI work as well as how we are implementing the Board's charge to develop this capacity and begin experimenting.

SSI is conceptualizing a portfolio of investments with a targeted focus on interventions that are aimed at achieving Goal 2025. The social investment portfolio is being guided by attaining outcomes on the following metrics:

(1) deliver a **social return** that contributes significantly toward Goal 2025 (1 million more students with credentials or on the path to get them by 2025).

(2) deliver a **financial return** of 1-3% for the entire portfolio of social investments.

(3) **attract other investors** and capital in support of Goal 2025 ($5 of other investors' money for each $1 of Lumina's money)[12].

(4) build an ecosystem that can deliver the 21st century postsecondary education system.

The initial target for social investment opportunities will be solutions addressing the needs of adult learners. We believe targeting SSI on adult learners could be a sweet spot for social investment.

Strategic social investments fall within a continuum of the Foundation's activities:

Grantmaking	**SSI**	MRI	Traditional Investments
Social Return Only	**Social Return First**	Market Return First	Financial return only
No Financial Return	**1-3% Financial Return + Capacity Building + Leverage Return + Build Ecosystem**	Potential Social Return	Social Return Not Part of the Design

Each of the above tools is needed to achieve Goal 2025. Strategic Social Investments provide another tool to use when a high potential organization has a proven solution to a specific challenge in increasing attainment **and** grants alone are unlikely to allow that solution to truly scale.

Summary of SSI Engagement Process

Step 1: Pipeline Cultivation—identify organizations or ideas that have the potential to contribute significantly to Goal 2025, and that with the help of the SSI, could meet that potential by scaling their work and achieving greater operational effectiveness and/or financial sustainability.

Criteria for Considering an Organization for Engagement with SSI:

- Social Return—Ability to scale within the opportunity space identified (#of credentials for underserved populations)
- Financial Return—Ability to preserve capital
- Leverage Return—Ability to attract other capital
- Build the Ecosystem—Ability builds a student [learning] centered system

In addition to the strength of the above criteria, the following will be considered:

- Contribution to the SSI portfolio
- Level of need and SSI's ability to help meet it
- Organizational leadership's commitment to working with SSI through the process
- Time and resources needed for investment and/or scale readiness

Step 2: Scale Exploration Phase—determine in greater detail and with greater certainty, the value an SSI engagement would contribute to the organization, and the value the organization would contribute to achieving Goal 2025. It is in this stage that grants may be used to bolster an organization's capacity to receive an infusion of capital through a Social Investment in the future. If the SSI team chooses to continue engaging with an organization either through grants or through an eventual Social Investment, this phase is also where potential solutions for turning a promising effort into a scalable and investable opportunity are generated. The work involves identifying potential partners, initiating collaboration, aligning all participants and partners behind a common vision and goals, and creating new ideas, strategies, and resources for accomplishing them. During this stage we work with organizations to determine whether their solutions can scale.

Step 3: Scale/Social Investment –execute an SSI investment and achieve a social return on Goal 2025, a financial return on the investment, while attracting outside capital to support the work.

The Way We are Thinking About Building the SSI Portfolio

As we build the pipeline of potential SSI investments, we have learned that in building the portfolio we are likely to have two buckets of investments:

Intermediary/Fund Investments

We anticipate that most of the portfolio investments will be direct investments—these are organizations we are working with to build their capacity and take a solution to scale. We have learned there may be fund investments that are of value in advancing Goal2025 and the SSI portfolio. We are beginning work with one such intermediary—New Profit. New Profit is a highly regarded nonprofit social innovation organization and venture philanthropy fund. It has experience building portfolios of social investments, and attracting an array of funders (including foundations, corporations, and high-net-worth individuals). We are exploring work with New Profit which could lead to building a new fund, focused on Lumina's strategic objectives. We are meeting with New Profit in Boston in April to 22nd and will keep you apprised of how this evolves.

Direct Investments

We have begun working with several potential organizations for possible direct investment. Below is the list of those in the pipeline. More detailed summaries of each are in Appendix A.

- Graduate! Network
- Learning Counts
- Completion Catalyst
- Goodwill, Industries
- Digital Passports

Operationalizing Strategic Social Investing

There are several key principles that are guiding the work.

- **Integrating strategic social investments with Lumina's strategies and functions.** This is critical to its success. SSI will rely on Lumina's strategies and content expertise as a key link to partner organizations and other thought leaders. In addition to working closely with Lumina's strategies, the SSI team will work closely with Lumina's investment team. This is important to ensure that SSI's goal of producing a sufficient level of financial return is met.[13]

- **Staffing.** This work is being led by Kiko Suarez and Holly McKiernan with the engagement of consultants. As noted in November, we budgeted for a position to be responsible for directing this work and we have begun the search for a Director of Strategic Social Investments. This position will report to the VP of Communications and Innovation. We will rethink the use of consultants once the SSI Director is on board. We plan for the work to be guided by an SSI Team comprising the VP of Communications and Innovation, the SSI Director, the Chief of Staff & General Counsel, and a Lumina Strategy Director. This SSI Team will set goals, monitor, and report progress, mobilize internal resources and lead interaction with the Foundation. Key areas of expertise required to execute the work include legal, financial/impact investing, design, innovation, relationship building and deep knowledge of nonprofits, foundations, and social enterprise.

- **Engagement with other funders.** To be successful, strategic social investing needs to leverage capital from other funders and investors. Our preliminary conversations suggest that the Kresge, Heron, and Gates Foundations are interested in this work and possible co-investment opportunities. It is important to note that attracting other funders/investors will go far beyond our typical foundation circles. Candidly, this work will be challenging because it is such a new arena for philanthropy. We are hopeful that our work with New Profit will expand our networks. New Profit's model of venture philanthropy involves attracting corporate and high net-worth investors. Further, discussions with our Board of Directors will be valuable as we think through how to build relationships with other investors.

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What We Are Learning

As noted earlier, the Investment Committee and Board have advised us to ramp up this work as quickly as possible. We are taking that challenge to heart; yet realistically, this work takes time to get organizations ready for a social investment. We continue to believe this work is, and will be, well worth the effort. Lumina has an opportunity to be a thought leader in social investing targeted on postsecondary education attainment. Some specific learnings:

- It takes a great deal of work to get a nonprofit ready for a direct social investment. In addition to leadership and business model changes, there are significant cultural shifts that need to take place.

- There is value in exploring investing in a fund, if there is sufficient alignment with Lumina's strategic outcomes, and we can learn from participating in the work. Our initial thinking did not include investing as we are planning in New Profit. However, learning from thought leaders in venture philanthropy, and attracting new investors, makes us want to explore work that would involve investing in a fund.

Next Steps

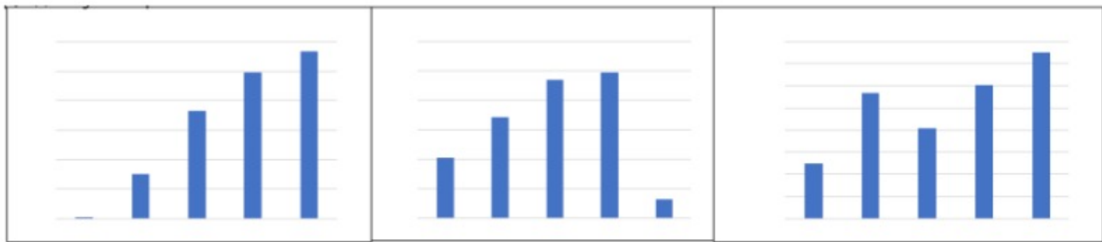
We are actively building the social investment function. As discussed above, we are beginning to build the portfolio by identifying both potential direct investment opportunities and fund investments. Work is underway to recruit for a Director of Strategic Social Investing. Finally, we are designing the processes needed to guide this work. We are guardedly optimistic that we will have several organizations by the end of 2015 that we are advancing in the SSI process and may be close to being ready for an investment and we also believe we will have completed the development of the New Profit investment.

As we experiment with building this function and an SSI portfolio, we will need to continually learn from our successes and failures and redesign the work as appropriate. This work could lead us in several different directions over the longer term. It could inform states in their investments in pay for success efforts; it could inform employers as they consider how best to maximize dollars for employee education; it could inform higher education institutions in how they make more informed resource allocation decisions. And while we are planning for social investments to be a component of the mission-related work of the Foundation—and therefore drawn from our annual operating resources—it is possible that from this effort will emerge that "big idea" worthy of an investment directly from the endowment. Ultimately, SSI could be a function that, like convenings, gives Lumina an added capacity to influence others and therefore increase the likelihood of achieving Goal 2025.

Appendix F: LIV Quarterly Portfolio Report, Q3 2020: Social Impact

III. Social Impact Summary (All Investments)

Aggregate Impact Metrics by Year



Note: Customers Served declines in Q2 2020 due to change in Credly's business strategy (move away from freemium business model) and resultant change in counting methodology.

Impact Metrics by Portfolio Company

Investee	Cumulative Learners Served	Customers Served	Cumulative Dollars Leveraged	Learners by Race/ Ethnicity						Learners by Age Group		
				African American	Hispanic	Native American	Asian	White	Other (a)	18-24	25+	Other (b)
Credly	17,218,211	1,337	$ 14,078,036									
BridgeEdU	557	2	$3,980,000									
Viridis (c)	1,142	10	$4,614,000									
Civitas Learning (d)	8,819,000	383	$22,500,000									
Upswing	143,338	121	$4,635,900	37,650	37,102	1,846	18,572	28,973	19,079	66,425	76,890	0
Edovo	36,802	121	$ 8,249,785							5,292	30,689	821
CareAcademy	135,191	624	$ 19,990,000									
Cell-Ed	109,948	187	$ 1,050,000	87,958	10,995	550	4,398	6,047	0			
BrightHive	1,551,262	18	$1,520,841									
Edquity	23,120	26	$ 3,448,341									
Bitwise	280	19	$ 28,500,000	9	152	0	16	103	0	96	280	0
Mentor Collective	73,539	120	$ 2,136,085	8,504	7,744	561	10,088	25,467	21,175	44,133	11,671	17,735
EduNav	246,400	8	$ 3,447,000									
Acadeum	2,870	274	$ 1,825,000	553	345	42	119	1,240	449	2,129	650	0
Noodle	3,580	23	$ 27,156,268	651	347	12	260	2,058	252	327	2,182	1,070
Total	**28,365,240**	**3,273**	**$147,131,256**	**135,326**	**56,685**	**3,011**	**33,453**	**63,888**	**40,955**	**118,402**	**122,362**	**19,626**

(a) Includes learners identifying as two races, or whose race is unknown or not disclosed.
(b) Includes learners under 18 and whose age is unknown or not disclosed.
(c) Data as of Q2 2019, the latest date impact data was provided by the company.
(d) Data as of Q3 2018. Civitas ceased providing impact data after its acquisition by Francisco Partners in Feb 2019.

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Endnotes

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[1] https://www.luminafoundation.org/. Accessed June 8, 2021.
[2] https://www.luminafoundation.org/about/lumina-foundation-faq/. Accessed June 9, 2021.
[3] https://www.luminafoundation.org/aof/work-and-learning// Accessed June 9, 2021.
[4] All quotes throughout this case, unless otherwise attributed, are drawn from interviews conducted by Jim Litwin or Gayle Peterson.
[5] https://www.luminafoundation.org/. Accessed June 10, 2021.
[6] These four items paraphrase the list given on page 1 of the March 2015 memorandum (Appendix E).
[7] Appendix E.
[8] Appendix E.
[9] Appendix D.
[10] "Lumina Foundation announces 2018 education innovation challenge prizes." Press release, Lumina Impact Ventures, April 2, 2018. URL: https://www.luminafoundation.org/news-and-views/lumina-foundation-announces-2018-education-innovation-challenge-prizes/. Accessed June 13, 2021.
[11] Lumina's footnote from March 2015 memo: "This memo updates and expands upon a memo to the Board on this topic. Portions of the November memo are included in this latest version."
[12.] Lumina's footnote from March 2015 memo: "We arrived at the $5 to $1 objective based on reviewing the approaches taken by others engaged in impact investing."
[13] Lumina's footnote from March 2015 memo: "Lumina has experience in launching new functions and new work by first developing and testing the idea with a dedicated team, and then, once the concept has been tested, integrating that function or work within the strategies. An example is the development of a convening function. Initially, convenings took on a more "siloed" position within the Foundation. Once we had experimented with the concept, processes were developed, and results achieved, convenings has been integrated fully within the strategies. We intend to learn from our experience of adding a convening function to ensure that SSI is fully integrated in the strategy work."