EXECUTIVE SUMMARY

Since its founding in 1999, the Michael & Susan Dell Foundation has expanded from an early focus on grantmaking to support underserved children in Texas to addressing social issues in the United States, India, and South Africa with a commitment to impact, scale, and sustainability. Channeling the same Dell spirit of innovation upon which it was founded, the foundation seeks to make an impact in the world through four program areas: Family Economic Stability, Urban Education, College/University Success, and Health and Wellness.

Prior to 2006, the foundation mainly supported innovative programmatic work through grants to nonprofit organizations. However, when the foundation started operations in India in 2006, it noticed the local market was ripe for impact investing because of the robust entrepreneurial culture combined with an opportunity to achieve impact at scale. Despite the favorable conditions, very few investors at that time were willing to take on the risk of developing products and services for the bottom of the pyramid. The foundation saw an opportunity to increase the penetration of urban microfinance in India and zeroed in on investment, alongside grants and technical assistance, as a tool to catalyze the market. As such, the foundation was an early mover in this space and helped to spur the impact investing movement in the country, using impact investments as a funding tool to address its programmatic priorities. Between 2006 and 2011, the foundation invested around $12 million in eight urban-focused microfinance institutions (MFIs) that have collectively impacted more than 12 million people. Since its initial investments, the foundation has expanded its impact investing activities to support investments in skills training and financial inclusion products to drive economic stability as well as innovative tools to increase learning outcomes in public schools and prepare urban students for college entrance exams. Similarly, the foundation made its first investment in 2013 in the U.S. educational technology sector and continues to explore opportunities in health and college preparation. The foundation is also currently conducting a market analysis in South Africa and is in the exploration stage of determining the feasibility of impact investing in the country.

The foundation's unique organizational attributes (outlined in the table below) have contributed to its successful impact investing track record. Some of these attributes were garnered through experience, while others are inherent within its founding structure as an innovative hands-on partner in the philanthropic space. These attributes include programmatic strategy, geographic context, internal resources, infrastructure, processes, and organizational culture. In combination, these qualities allow the foundation to continue to make successful investment decisions while providing an environment to iterate on key learnings from each new venture.

Key Organizational Attributes Supporting Mission Investing

STRATEGY	Adherence to a well-defined, long-term programmatic strategy that puts mission first and is strongly connected to investment decisions.
CONTEXT	Flexibility to meet unique operational and regulatory factors found across various markets and geographies.
RESOURCES	Access to financial resources to deploy innovative funding tools.
INFRASTRUCTURE	Establishment of an impact investing support function and requirement of high-level skill sets across the organization.
PROCESS	Use of internal tools and oversight functions to rigorously monitor and evaluate impact investments.
CULTURE	Commitment to opportunity, innovation, and collaboration to guide problem solving.

In addition to its unique organizational attributes, the foundation uses several filters to evaluate the most appropriate funding tool when presented with a new investment opportunity, informed by its previous impact investment experience in both the U.S. and India. These considerations can be categorized into a MISSION framework that includes the following dimensions: Market, Impact, Scale, Sustainability, Incrementality, Organization, and Next. The MISSION framework may also be a helpful tool for other family foundations and philanthropic organizations looking to begin or expand their impact investing activity. Prior to analyzing investments through the MISSION framework, the foundation first asks: Does this opportunity align with the foundation's programmatic strategies? Above all, the foundation operates with a mission-first approach. When a new investment opportunity presents itself that offers financial returns and/or social impact, the focus of the potential investee must align with a relevant programmatic strategy. If there is a programmatic fit and the investment addresses the salient questions of the MISSION framework, the foundation's mission may be best served through an impact investment rather than a grant.

The foundation is currently evaluating a follow-on equity investment in LabourNet, a leading social enterprise based in Bangalore that provides skills training and placement services to the informal workforce. This opportunity fit well within the foundation's Jobs and Livelihoods initiative under the Family Economic Stability program area. The foundation had first invested in LabourNet in 2013 and had seen this promising young organization through early-stage growing pains over the past few years. LabourNet emerged stronger after working hard to stabilize its finances and now appeared poised for its next level of growth. Below is a sample analysis of the investment opportunity in LabourNet using the MISSION framework.

PROGRAM-RELATED INVESTMENTS

PRIs allow a U.S. private foundation like the Michael & Susan Dell Foundation to make investments in enterprises to carry out charitable, tax-exempt initiatives through a range of financial instruments, including loans, equity investments, and guarantees. For an investment to qualify as a PRI, a foundation must ensure that the primary goal of the investment is to accomplish its charitable purposes, as opposed to prioritizing financial returns. These investments differ from Mission-Related Investments, which seek market returns on endowment investments while also pursuing a positive social or environmental impact and may be unrelated to programmatic goals.

MISSION FRAMEWORK

	DEFINITIONS AND GUIDING QUESTIONS
MARKET	Ability to create new markets, test innovative products and services, or serve new demographics through the use of patient capital and/or fund investments. Objective is to prove a business model's long-term financial sustainability and demonstrated demand (aka product/market fit) in order to attract traditional capital and spur competition. **▶ Will the investment unlock an opportunity for a service or product that provides utility to a beneficiary population with the ability to pay?**
IMPACT	Use of a PRI may induce organizational growth, programmatic scale, or similar effects that can lead to widespread, demonstrable outcomes in a relatively short time. The investee should be able to produce measurable outcomes that are clearly connected to programmatic strategies. **▶ Is the investee delivering measurable impact to the target segment and can the quality of this impact be maintained and/or improved with scale?**
SCALE	Investment can scale a nascent market to serve low-income customers or move an existing market to have a higher proportion of low-income customers. **▶ Will the opportunity expand the reach of the product or service as a result of both the foundation's investment and the leveraging of traditional investors?**
SUSTAINABILITY	Long-term financial health increases the likelihood of an investee's success and the achievement of social impact at scale. A deep understanding of organizational risk factors, operational metrics, exit path strategies, and scenario planning helps to mitigate firm-level risk. Relationships with top management and other investors, along with ongoing data collection and analysis, are additional tools for ensuring sustainability. **▶ Will the investee arrive at a financially sustainable model, thereby increasing the likelihood of the investee's long-term success, through a strong focus on financial and operational metrics?**
INCREMENTALITY	The investment adds value and is an opportunity beyond the scope of, not a replacement of, mainstream capital. **▶ Would the opportunity, and related additionality, be realized without the foundation's investment?**
ORGANIZATION	The entrepreneur/promoter and other capital providers need to be committed to both the market and charitable objectives of the investment and be open and supportive of the philanthropic investors' role, including board representation, reporting requirements, and operational target analysis. **▶ Does the investee have the appropriate leadership capacity and commitment to manage the investment and enforce strong corporate governance principles?**
NEXT	The investment has a logical path to scale market sustainability through a capital strategy or recycling of capital. The inherent sustainability of the model should enable it to attract new forms of capital to allow significant scale up of the outreach and impact. There is a steadfast commitment to accountability by the investee, driven by expectations of capital recovery. **▶ Are there follow-on investment opportunities and is there an acceptable timetable estimated for the repayment of capital and any expected return?**

The broader impact investing space is extremely fragmented — ranging from financial service firms screening public equities for Environmental, Social, and Governance criteria to appeal to high-net-worth clients to Private Equity and Venture Capital firms seeking opportunities that will first and foremost provide market risk-adjusted returns while also demonstrating social impact to limited partners. Another subset of investors includes select private investors, nonprofits utilizing Program-Related Investments (PRIs), and Development Finance Institutions whose primary goal in impact investing is social impact. These entities often assume a catalytic role or provide concessionary capital with the objective that their involvement will open up opportunities for more traditional investment to scale social impact that otherwise would not occur. The problem stemming from such fragmentation is that from a risk-return perspective, impact investing is not a single asset class that investors can align with. Impact investors are spread across a spectrum of asset classes, and often investors find it difficult to identify their place on the spectrum. For an organization such as the foundation, which has integrated impact investing as a tool for its program officers, its steadfast and laser-focused programmatic objectives and related market expertise have made uncovering opportunities where investment makes sense an organic part of its operation. As such, integrating impact investing into the foundation's program strategy has provided a means to accelerate and scale the impact of the foundation, by leveraging market-based models of delivering mission aligned products and services to low income families and communities.