

Impact Investing for Community Foundations Webinar Series

Part I: Introduction to Impact Investing

June 15, 2011

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Alphabet Soup du Jour

- Active investing
- Blended value investing
- Community investing
- Double (or Triple) bottom line investing
- Environmental, social, and corporate governance (ESG) investing
- Ethical investing
- **Impact investing**
- **Mission-related investing (MRI)**
- Mission-based investing
- Mission-driven investing (MDI)
- Mission investing
- **Program-related investing (PRI)**
- Social investing
- Socially responsible investing (SRI)
- Sustainable investing
- Targeted investing

Presenters



Doug Kridler
President & CEO
The Columbus Foundation
www.columbusfoundation.org



Stuart Comstock-Gay -- Debbie Rooney
President -- CFO
The Vermont Community Foundation
www.vermontcf.org



Marc Rand
Loan Officer
Marin Community Foundation
www.marincf.org



Peter Berliner
Managing Director
PRI Makers Network
www.primakers.net



Lisa Richter
Principal
GPS Capital Partners
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Topics

- Community Foundations and Impact Investing
 - ✓ Models and Benefits
 - ✓ Legal and Regulatory Issues
- Types of Impact Investments
- Resources
- Questions



What are Impact Investments?

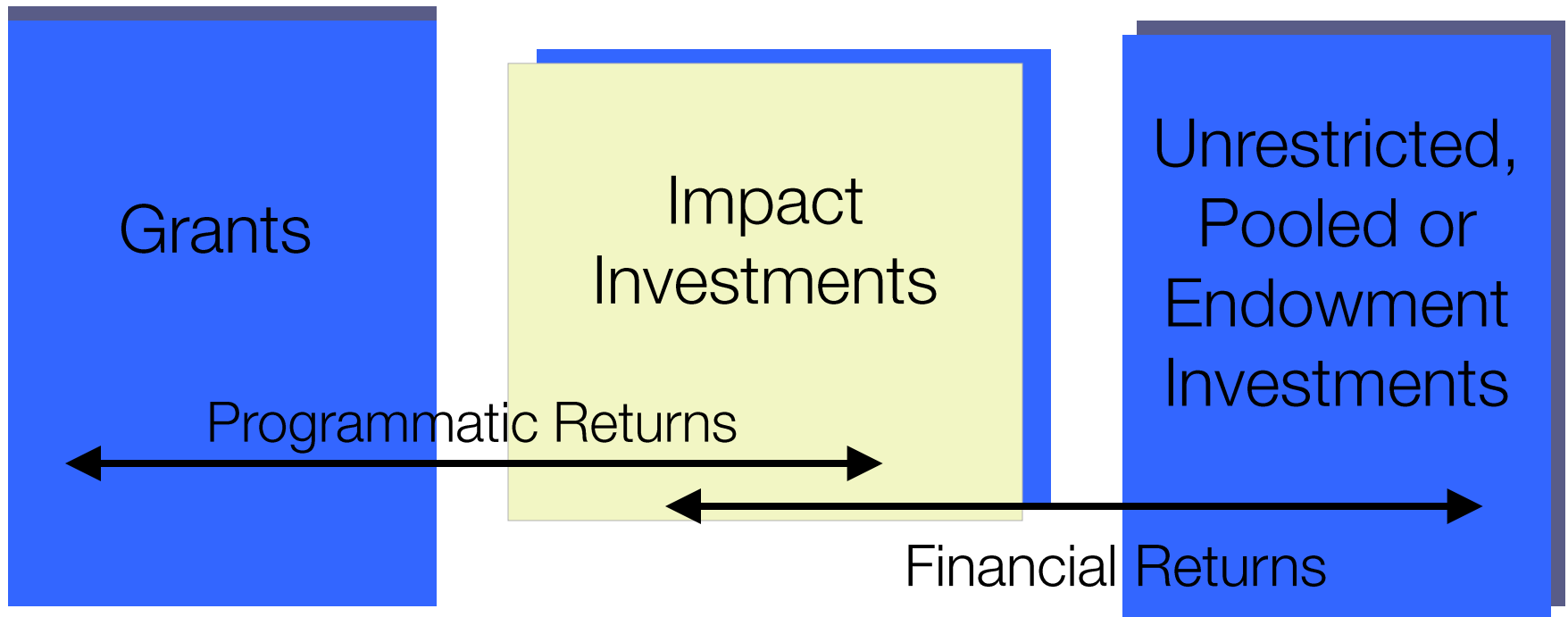
Financial investments made for social and/or environmental benefits as well as financial return

- Range of asset classes, expected returns, places

Feasible if organization or project has:

- Reliable source of repayment, recurring fees, pledges, refinancing, profitable sales growth
- Sound management and business plan

What are Impact Investments?





Stuart Comstock-Gay -- Debbie Rooney
President -- CFO
The Vermont Community Foundation
www.vermontcf.org

*Building philanthropic resources that will
sustain healthy and vital Vermont
communities now and into the future.*



THE
Vermont
Community Foundation

Geography: State of Vermont

Total Assets: \$155 million

Investment Returns as of December 31, 2010:

- Ranked in the top 20 percent of community foundations for the prior three years
- Ranked in the top 10 percent of community foundations for the prior five years



Impact Investments & Active Ownership

- Vermont Investments
- Local Bank Cash Management
- Recoverable Grant
- Active Ownership:
 - ✓ Socially Responsible Investment Fund (screened) - \$10.3 million
 - ✓ Active proxy voting
 - ✓ Active shareholder resolution co-filer



- Vermont Investments created by Board resolution in 2001
- Target: at least 5% of Foundation pooled assets be invested to support and promote healthy and vital Vermont communities.
- \$6.5 million of assets invested to date



Vermont Investment Pool:

- Initially viewed as a geographic bond portfolio with low risk investments with expectations for low returns
- Used intermediaries for investment and third parties for due diligence
- Now looking to expand asset classes and investment structure

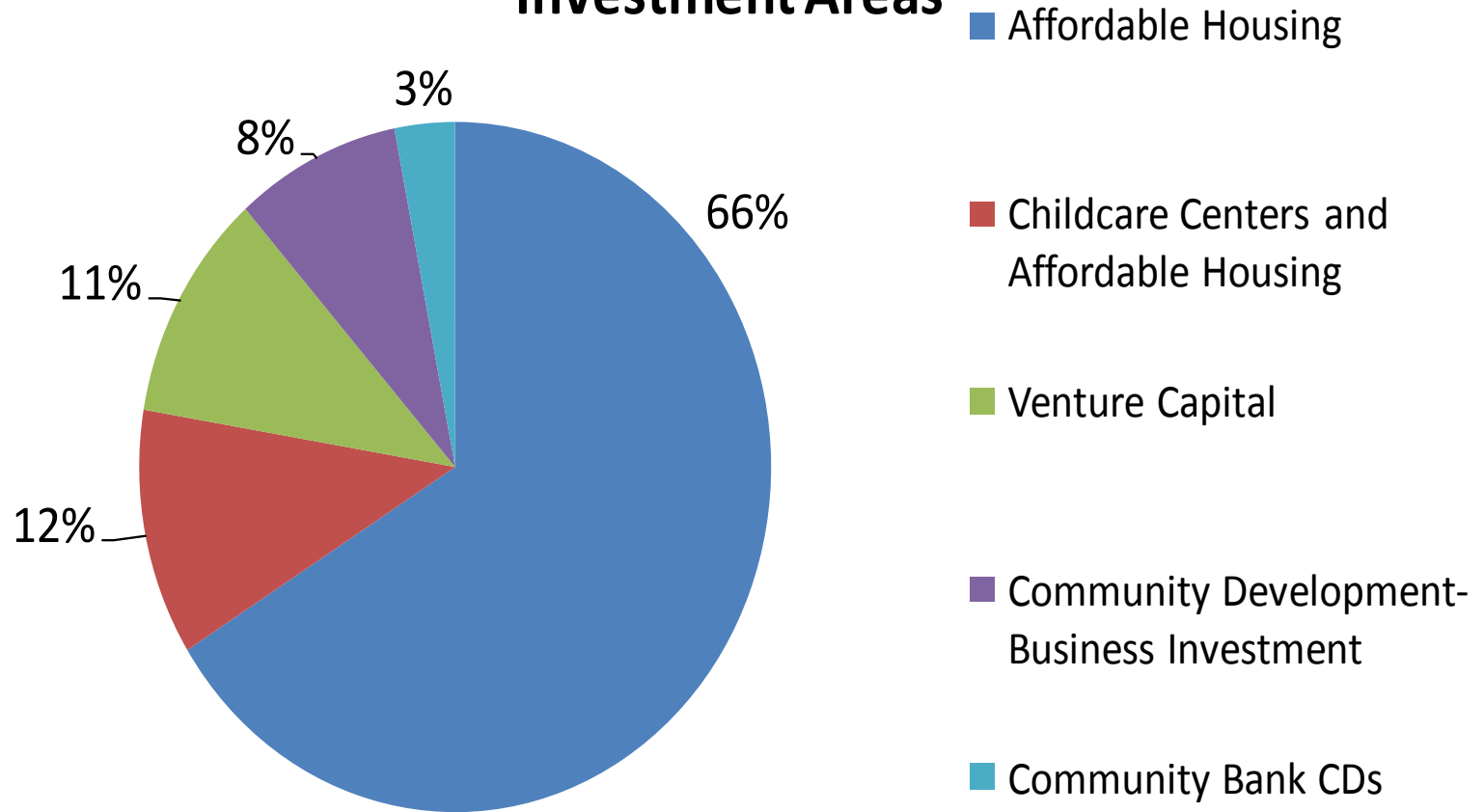


Vermont Investments:

- Community Development Financial Institutions
 - ✓ Micro loans
 - ✓ Community loans for low income housing
 - ✓ Community loans for childcare centers
 - ✓ Co-op loans (food co-ops)
 - ✓ Community loans for small business
- Certificates of Deposits with local community banks
- Access Capital Community Investment Mutual Fund
- Venture Capital Fund
 - ✓ FreshTrack Fund I and II (Vermont investment)
 - ✓ Borealis Fund I and II (New England investments)
 - ✓ CEI Fund (New England investment)



Investment Areas





Marc Rand
Loan Officer
Marin Community Foundation
www.marincf.org

Encourage and apply philanthropic contributions to help improve the human condition, embrace diversity, promote a humane and democratic society, and enhance the community's quality of life, now and for future generations.



Geography: Marin County, CA; global per donor requests

\$1.3 billion in assets – includes Buck Trust

- \$60 million in grants per year
- \$25 - \$30 million Buck Trust – Marin only
- \$30 million – worldwide

Strategic Initiatives:

- Closing the Education Achievement Gap
- Ending the Cycle of Poverty
- Increasing Affordable Housing
- Reducing the Impact of Climate Change



Marin Community Foundation Loan Fund

- Revolving loan fund created in 1989
- \$16 million in total capital
- Lends to nonprofits that either cannot access commercial debt or the debt is too expensive
- Makes direct loans to nonprofit organizations in Marin
-- not through an intermediary

<http://www.marincf.org/grants-and-loans/loan-fund>

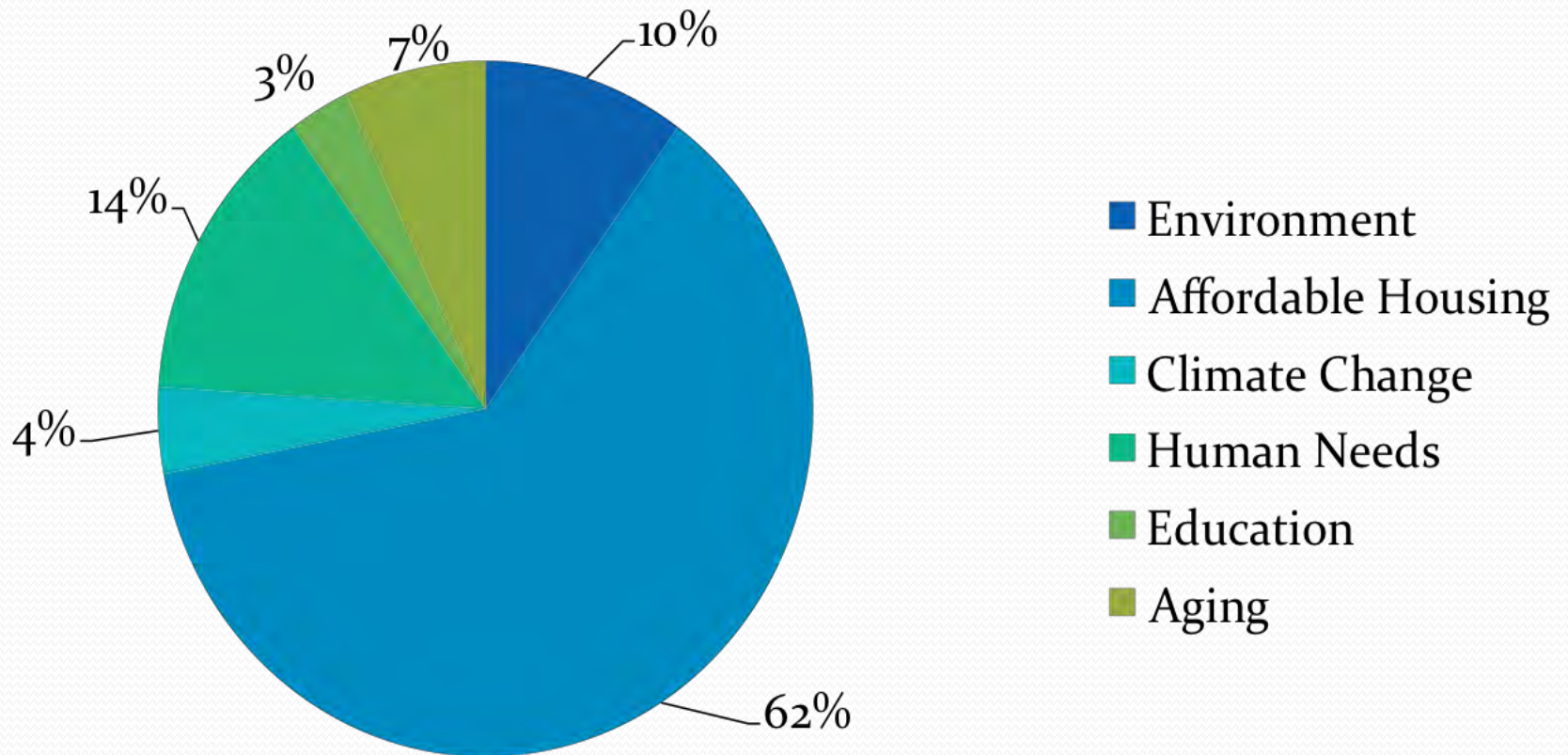


MCF Loan Fund Overview

- Augments MCF's grant portfolio
- \$12-13 million outstanding
- 4% interest, \$0 origination fee
- 0% default
- 60% is invested in affordable housing
- 90% of the loans are secured by real estate
- Average loan size \$750,000



MCF Loan Portfolio Diversity of Investments





Affordable Housing:

- Nonprofit developers are sophisticated and understand debt finance
- Underwriting is standard
- Loans to affordable housing are typically secured by real estate

Loans are needed in the marketplace.



Community Development & Community Facilities:

- Acquisition, construction, permanent
- *Sources of repayment: Capital campaign, government sources, rent, energy efficiencies*
- *Examples:*
 - ✓ *30 acre parcel for environmental organization*
 - ✓ *Historic property for programs*
 - ✓ *Photovoltaic on public schools*
 - ✓ *Energy efficiency upgrades for 700 units of affordable housing*



Marin Community Investment Pool:

Allows Donor Advised Fund investments in the loan fund.

- + Increases lending capital
- + Increases donor engagement
- + Low cost of capital to re-lend

-Not easy to implement

<http://www.marincf.org/giving/donors/investment-strategy>

<http://www.marincf.org/news/updates/a-new-investment-option-for-mcf-donors>

Models for Community Foundations

Variables:

- Foundation / donor-led
- Unrestricted / donor funds
- Market-rate / concessionary investments
- Selected / all asset classes
- Direct / intermediary investments
- Local / remote investments
 - ✓ *webinar series focuses on local investing*

Models for Community Foundations

Factor			
Lead	<ul style="list-style-type: none"> • Foundation • <i>Cleveland</i> 	<ul style="list-style-type: none"> • Donors • <i>Orange County</i> 	<ul style="list-style-type: none"> • Both • <i>Orange County</i>
Source of Funds	<ul style="list-style-type: none"> • Unrestricted funds • <i>California (CCF)</i> 	<ul style="list-style-type: none"> • Donor Advised Funds • <i>Kansas City</i> 	<ul style="list-style-type: none"> • Both • <i>Marin</i>
Expected Return	<ul style="list-style-type: none"> • Concessionary • <i>Boston</i> 	<ul style="list-style-type: none"> • Market-Rate • <i>Atlanta</i> 	<ul style="list-style-type: none"> • Both • <i>Vermont</i>
Asset Classes	<ul style="list-style-type: none"> • Selected • <i>Marin</i> 	<ul style="list-style-type: none"> • Traditional Allocation • <i>Vermont</i> 	<ul style="list-style-type: none"> • Both • NA
Execution	<ul style="list-style-type: none"> • Direct • <i>Baton Rouge</i> 	<ul style="list-style-type: none"> • Intermediaries/Funds • <i>San Francisco</i> 	<ul style="list-style-type: none"> • Both • <i>Kalamazoo</i>
Geography	<ul style="list-style-type: none"> • Local • <i>Barberton</i> 	<ul style="list-style-type: none"> • Global • <i>Seattle</i> 	<ul style="list-style-type: none"> • Both • <i>Seattle</i>

Legal & Regulatory Framework

- Community foundations operate primarily for charitable purpose; only an insubstantial part of activities can be for non-charitable purpose.
- State laws on fiduciary responsibility apply.
- The Pension Protection Act applies, requiring expenditure responsibility for certain distributions from Donor Advised Funds.

Legal & Regulatory Framework

For impact investments intended as program-related charitable activity, foundation must determine:

- It is making the investment primarily to accomplish its exempt purposes versus produce income.
- No private inurement or excess private benefit is involved.¹

¹ Levitt, David, Unscrambling 'MRIs' and 'PRIs', Philanthropy Journal, April 5, 2011
[http://www.adlercolvin.com/pdf/DAL's%20Article%20\(00319112\).PDF](http://www.adlercolvin.com/pdf/DAL's%20Article%20(00319112).PDF)

Legal & Regulatory Framework

Factor	Community	Private
Charitable Investment	<ul style="list-style-type: none"> • <i>PRI not defined in IRS regulations, but:</i> • PRI defined and must be reported in 990: “investments made primarily to accomplish the organization's exempt purposes rather than to produce income.” • Often adapt private foundation practices 	<ul style="list-style-type: none"> • <i>PRI defined in the Tax Code of 1969</i>
Source of Funds for Charitable Investment	<ul style="list-style-type: none"> • Unrestricted funds • Expense / grants budget; <i>there is no distribution requirement</i> • Donor Advised Funds; supporting organizations; agency endowments 	<ul style="list-style-type: none"> • Grants budget, <i>i.e. can be counted toward distribution</i> • Endowment • Dedicated Pool
Governance	<ul style="list-style-type: none"> • Board, committee, <i>bank trustees, donor advisor requests</i> 	<ul style="list-style-type: none"> • Board, committee, staff

Legal & Regulatory Framework

Private Foundation Regs	Community Foundations
Section 4940: Net Investment Income Tax	NA
Section 4941: Self-Dealing	NA, but subject to federal prohibitions for charitable institutions generally, i.e. restriction on private inurement and excess benefits.
Section 4942: Qualifying Distributions	NA
Section 4943: Excess Business Holdings	NA
Section 4944: Jeopardizing Investments	NA
Section 4945: Expenditure Responsibility	NA, except for certain distributions from Donor Advised Funds. Generally apply private foundation guidance so that PRIs to non-5(c)(3)s are charitable expenditures.

Types of Investments

- Equity Investments
- Loans
- Deposits
- Credit Enhancements/Guarantees
- Fixed-Income Investments
- Real Estate Purchases



Examples of Impact Investments

Deposits

Community Banks

Credit Unions



Examples of Impact Investments

Fixed-Income Investments

Bonds

Calvert Notes



Examples of Impact Investments

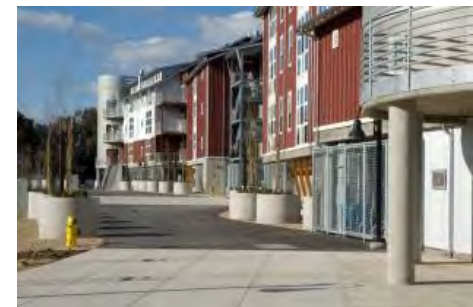
Loans

Marin Community Foundation:

- Affordable Housing Loans
- Facilities Acquisition & Development
- Land Acquisition
- Working Capital – state budget



MCF does not offer guarantees.



Examples of Impact Investments

Credit Enhancements/Guarantees

Schools

Federally Qualified Health Centers

Nonprofit Organization

Housing

Small Business

Examples of Impact Investments

Equity Investments



New Businesses

Technology Innovation



Uses and Applications

Cash Deposits

Opportunities Credit Union, <http://www.oppsvt.org/>

Fixed Income

Access Capital Community Investment Fund, <http://us.rbcgam.com/mutual-funds/fixed-income-funds/fg-4/fsg-7/fid-15/individual/overview/access-capital-community-investment-fund.fs>

Calvert Foundation, <http://www.calvertgroup.com/>

Revolving Loans

Direct: Marin Community Foundation, <http://www.marincf.org/grants-and-loans/loan-fund>

Intermediary: Vermont Community Loan Fund, www.investinvermont.org

Loan Guarantees

Kalamazoo Community Foundation

http://www.moreformission.org/assets/files/Kalamazoo_Investment_Policy1.pdf

Private Equity

Fresh Tracks Capital, <http://www.freshtrackscap.com/>

Questions?



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www.primakers.net

Apply your registration fee to membership today!

- Investment policy statements
- Loan documents and other templates
- Guides for use of PRIs
- PRI Activity Database
- Deals Clearinghouse
- E-networking
- Articles and books

Additional Resources

PRI Makers Network Webinars

PRI Institute: Building Healthy Communities

November 9 - 11, Princeton, New Jersey

*Hosted by the Robert Wood Johnson
Foundation*

www.primakers.net

Additional Resources



COUNCIL *on* FOUNDATIONS

www.cof.org

GPS Capital Partners

financial • social • environmental impact and return

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