ESSENTIALS *of* IMPACT INVESTING

A GUIDE FOR SMALL-STAFFED FOUNDATIONS

Produced by

ARABELLA ADVISORS

EXPONENT PHILANTHROPY

MISSION INVESTORS EXCHANGE

TABLE *of* CONTENTS

INTRODUCTION 3

PART I: **IMPACT INVESTING OVERVIEW** 6

Chapter 1: What is Impact Investing, Anyway? 7

Chapter 2: Essential Terms 10

Chapter 3: Opportunities and Challenges for Small-Staffed Foundations 18

PART II: **PREPARE TO INVEST FOR IMPACT** 25

Chapter 4: Engaging and Making the Case to Trustees 26

Chapter 5: Developing Your Strategy 31

Chapter 6: How to Address Expertise and Staffing Needs 43

Chapter 7: Drafting Your Impact Investing Policy 55

Chapter 8: Decision-Making Processes 60

PART III: **PUT IMPACT INVESTING TO WORK** 62

Chapter 9: Deal Sourcing and Finding Investments 63

Chapter 10: The Review Process: Due Diligence 76

Chapter 11: Structuring Investments 79

Chapter 12: Impact Measures and Monitoring Tools 81

Chapter 13: Avoiding and Troubleshooting Investment Challenges 84

PART IV: **CASE EXAMPLES** 87

Appendix A: Contributors 146

Appendix B: Resources 152

Appendix C: Tools 155

INTRODUCTION

Impact investing has the potential to enable every foundation, regardless of size, to pursue its philanthropic mission more effectively. It can help individual donors, families, foundations with few or no staff, and all sorts of giving entities put more and different types of capital to work for social good. Even better, it can deliver philanthropic impact alongside financial returns—which can enable reinvestment of those funds in pursuit of even more social good.

Of course, years of experience teach that impact investing is neither a panacea nor a pipe dream. It is one of many tools we will need to use to address the complex social and environmental problems we face. It can be difficult work—and, like all difficult work, it sometimes fails. But the practice of impact investing is growing daily. And its practitioners are sharing tools, techniques, and experiences that can enable others to learn from both their successes and their challenges. Thanks to that work—and that willingness to share—the opportunity now is immense: the essentials of effective impact investing are becoming clearer, and best practices are emerging that can enable all sorts of innovative investors to engage.

We offer this guide with that opportunity in mind—and specifically to support small-staffed foundations seeking to use impact investing to further their missions. It provides a starting point, a review of key questions to consider and ways to answer them, and a variety of tools and connections to additional resources you may need. It aims to:

- **Increase awareness and use of impact investing tools.** We hope this guide will provide philanthropists with knowledge, tools, and resources that will help them increase the use of their capital and create more impact for social or environmental good.
- **Supply technical know-how to foundations and grant makers.** The information in this guide is meant to be actionable. While every funder has different capacities, goals, and circumstances, we aim to provide advice, guidelines, and suggestions that small-staffed foundations can apply to their work—today or in the future.

- **Grow the field—and the impact investing community.** The more impact investors doing good work, the stronger the field. To foster and build a community of investors, we have included case examples from other small-staffed foundations, so readers can learn from their experiences and connect with others who share your goals and challenges.

We and other leaders in our organizations have seen the many remarkable effects that impact investments have made on the issues our clients and members care most about. Our decades of experience in the field have shown us the most effective ways to make these investments, and how to help funders determine the approach and strategy that is right for them, discover the opportunities that best align with their resources and goals, and evaluate past investments to inform future ones.

We are excited to help your foundation make the most of impact investing—and look forward to hearing about the ways you used this tool to realize the important changes you seek.

Sincerely,

Melanie Audette
Acting Managing Director
Mission Investors Exchange

Cynthia Muller
Senior Director, Impact Investing
Arabella Advisors

Stephanie Fuerstner Gillis
Managing Director
Arabella Advisors

Henry L. Berman
Chief Executive Officer
Exponent Philanthropy

PART I: IMPACT INVESTING OVERVIEW

Before a foundation can invest for impact, it has to understand how impact investing is defined, the standard terms impact investors use to describe their work, and how small foundations fit into the landscape. This section will lay this groundwork, helping you position your foundation for success.

1. WHAT IS IMPACT INVESTING, ANYWAY?

By PETER BERLINER, MISSION INVESTORS EXCHANGE

Impact investing is a way for foundations of all types and sizes to help nonprofit or for-profit social enterprises obtain the capital they need to innovate, grow, and bring solutions to scale. By making investments that are designed to generate measurable social or environmental benefits along with financial returns, foundations can also deploy more of their assets in support of their mission.

In recent years, the use of impact investments has become much more prevalent. However, the idea is not new. While philanthropists have always made occasional loans, the practice was elevated in the 1960s when the Ford Foundation began a practice of investing in communities with limited access to commercial finance. This led to changes in the federal tax code that allowed private foundations to make program-related investments (PRIs) to achieve their philanthropic goals while also retaining their tax-exempt status. PRIs can generate returns, as long as the main purpose of the investment is to accomplish a goal related to the foundation's mission, and they have become an essential tool for impact investors.

Today, the scale of community and global needs outstrips the supply of available capital, and foundations are turning to impact investing as a way to bridge the gap. Private foundations are finding ways to maximize the impact of their assets in two ways:

First, they are making PRIs with the expectation that the amount invested will be repaid to the foundation. Once returned, these funds are recycled into other charitable purposes. Second, they are using a portion or even the whole of their endowments to invest in enterprises and funds that are aligned with their mission. For example, a foundation focused on sustainability might invest in the development of alternative sources of energy. A foundation working to improve health outcomes may support businesses developing new diagnostic technology. By making these kinds of mission-related investments (MRIs), foundations are able to achieve both tangible social benefits and financial returns sufficient to sustain or grow their assets.

Potential impact investors wonder if they will sacrifice financial returns by investing for impact. A survey by the Global Impact Investing Network (GIIN) has found that most of the impact investors it surveyed indicate that their investments are in line with or outperforming their financial expectations. As the field grows, so, too, does our ability to learn and improve our practices.

The growth of the field holds enormous promise: US foundations alone have total assets of over $798 billion, all of which could be invested in some form of social or environmental impact. By 2020, the total impact investing market size could reach between $400 billion and $1 trillion. Moreover, a 2014 study by US Trust found that high-net-worth individuals consider social and environmental impact a critical component of their investment decision making. Younger generations, most prominently millennials (individuals born between 1980 and 2000) are increasingly driving the interest in impact investing. And many of these high-net-worth individuals now are channeling these investments through foundations, donor-advised funds, and investments directed on their behalf by family offices.

For many years, small-staffed foundations have been at the heart of the impact investing movement, joining with and at times leading larger philanthropies. About one in ten small-staffed foundations are already engaged in some form of impact investing, and many more are well positioned to do so. Small-staffed foundations tend to be more agile than larger-staffed foundations—as they don't have layers of decision makers—and may also have greater knowledge of the needs of certain issues and geographies. They are better positioned than larger foundations to deploy a greater portion of their resources in support of mission and goals, and they are also better able to make investments that catalyze an enterprise or field.

In addition, the change small-staffed foundations seek is often closely tied to the trustees' and staff members' values, and impact investing is a powerful way to reflect these values across the foundation's entire portfolio of investments.

AN ESPECIALLY EFFECTIVE TOOL FOR FAMILY FOUNDATIONS

BY STEPHANIE FUERSTNER GILLIS, ARABELLA ADVISORS

Family foundations often are small-staffed or volunteer-led and thus face many of the same challenges and opportunities we discuss in this guide. However, impact investing offers family foundations in particular a way to make the most of their community connections and provides an opportunity to collaborate meaningfully across generations and interests.

Like other small-staffed foundations, many family foundations have place-based giving strategies and close relationships in their community. Because of their history and geographic focus, these funders often are able to be more responsive to, and in tune with, the needs of the community and its players. They are well positioned to identify opportunities, navigate tricky stakeholder dynamics, and attract outside investors and partners to the endeavor.

Impact investing also can provide exciting opportunities for working across generations of the family and next-generational leadership. In our experience, younger generations who may not be deeply involved in the foundation's grant making tend to be early adopters of impact investing tools. This work often appeals to millennials and generation Xers who may be sector agnostic and more open to new ways to achieve goals. By allowing younger family members to lead the charge in impact investing, generations can work side by side toward impact.

Generations can learn together, too. Impact investing isn't a static activity—many foundations start with one transaction, allowing them to refine and adjust before diving in more extensively. These first transactions offer families the opportunity to find their current comfort level—and determine how they'd like to move forward.

Working as a family to make a difference in the issues you care about can be incredibly rewarding. Impact investing can be an effective tool for families seeking to deepen their philanthropy and impact, and it also can bring families closer together as they learn from and alongside each other.

2. ESSENTIAL TERMS

This chapter outlines the most common terms you'll encounter in this guide—and in the field.

IMPACT INVESTING GLOSSARY

BELOW-MARKET RATE: A program-related investment (PRI) or any other concessionary investments made primarily for program purposes without the expectation of a risk-adjusted market-rate return. (See below for a definition of a PRI.)

CHARITABLE PURPOSE: To qualify as a PRI (see below) an investment must have a charitable purpose that is consistent with the general purpose of the foundation. Accepted charitable purposes include, but are not limited to, relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erection or maintenance of public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

DUE DILIGENCE: An in-depth process of evaluating a particular potential investment, including the careful confirmation of all critical assumptions and facts presented by a potential investee. Due diligence includes assessing the feasibility of a project's financial and social goals and the capacity of the organization to achieve them. The process includes verifying sources of income, accuracy of financial statements, value of assets that will serve as collateral, tax status of the borrower, and other material legal and financial information.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INCORPORATION: An ESG investing strategy incorporates environmental, social, and corporate governance criteria into investment analysis and portfolio construction across a range of asset classes. Examples of ESG incorporation strategies, according to the Forum for Sustainable and Responsible Investment, include: selecting investments for the positive ESG performance of a sector, company, or project relative to industry peers; excluding certain sectors or companies from a fund or a plan based on specific ESG criteria; including ESG factors into traditional financial analysis or impact investments; and selecting assets for single- or multi-themed funds that are specifically related to sustainability.

GUARANTEE: A pledge to pay a debt or to perform some other obligation if the person or entity that is liable defaults. For example, when a third party guarantees a loan, it promises to pay in the event of default by the borrower.

MARKET RATE: The risk-adjusted financial return on an investment that a conventional investor expects for a given type of investment. For example, the interest rate set for a market-rate loan may be the current or usual rate charged by commercial banks.

MISSION-RELATED INVESTMENTS (MRIs): Investments made with the expectation of generating social or environmental benefits and risk-adjusted market-rate returns. MRIs are part of the foundation's total assets, known as its endowment or corpus.

PAYOUT: The minimum amount of funds that a private foundation is required by the IRS to expend each year on programs (grants) and program-related administrative expenses. PRIs and related expenses are eligible to be counted as part of the annual payout.

PROGRAM-RELATED INVESTMENTS (PRIs): A specific category of impact investments that private foundations can use. These investments must meet the criteria established by the IRS: They must (1) be made primarily to accomplish one or more of the foundation's exempt purposes, (2) not produce income or appreciation of property as a significant purpose of the investment, and (3) not be used for lobbying. (See more detail here on how the IRS defines PRIs.) PRIs may take many forms including loans, deposits, bonds, and equity investments.

SECURED LOAN: A loan in which the borrower pledges an asset (such as property) as collateral. If the borrower defaults, the lender takes possession of the asset used as collateral and may sell it to regain some or all of the original loan.

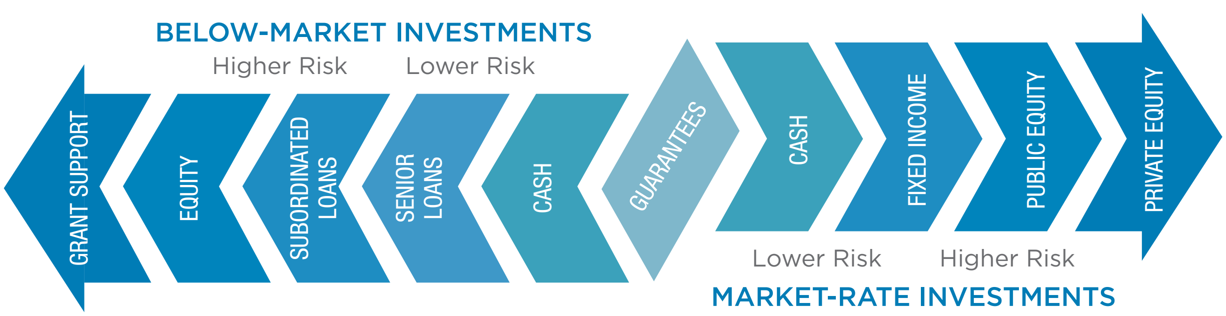
SOCIALLY RESPONSIBLE INVESTING (SRI): An investment strategy that seeks investments that are considered socially responsible because of the nature of the investee company's business. Common themes of SRI include avoiding investments in companies that produce or sell products and services that could be considered harmful to the environment or society (alcohol, gaming, tobacco, oil) or seeking out companies engaged in environmental sustainability and other socially beneficial endeavors.

UNSECURED LOAN: A loan that is not secured by collateral (i.e., cash or real assets). As an example, a foundation having a longstanding relationship with a grantee, having done satisfactory due diligence, and having documented justification, terms, and a clear repayment plan may find it appropriate to issue an unsecured loan to the nonprofit.

For more definitions of more impact investing terms, see the Mission Investors Exchange Glossary.

IMPACT INVESTING CONTINUUM ACROSS TRADITIONAL ASSET CLASSES

This chart, created by the F. B. Heron Foundation, is a useful framework for foundations that are considering their impact investing asset allocation. Impact investors can deploy their investments into a variety of organizations, enterprises, and companies. As with traditional investment, the continuum of asset classes holds different levels of risk and expected return.



GRANT SUPPORT: A sum of money given by an organization, usually a philanthropy or a government, in pursuit of a particular social or economic purpose. There is no financial return.

EQUITY (Stock): A below-market equity investment example would be buying stock at a time when a company is starting out and returns are much less certain or expected than buying at a time when the future of the company and its success are clearer.

SUBORDINATED LOANS: A loan repaid last (or later than other loans) ranks below other loans with regard to claims on assets or earnings in the event of a bankruptcy. In a default situation, creditors with subordinated debt would not get paid out until after the senior debt holders were paid in full. Foundations making subordinated loans can attract other investors to the project by taking on relatively more risk than commercial investors are willing or able to do.

SENIOR LOANS: A senior loan is returned first to the lender, before all other claims against a borrower. In the event of a bankruptcy, senior loans are the first to be repaid, before any other parties receive repayment.

CASH (Below-Market): Deposits are made at below-market rates to banks, credit unions, or small or emerging community development credit unions. For example, a foundation can make a cash deposit in a community development credit union. The credit union can then use that capital to provide affordable mortgages or loans to small businesses.

GUARANTEES: An instrument that a foundation can use to help a borrower who is not eligible for a loan obtain financing. It can be funded (the foundation provides capital up front) or unfunded (the foundation promises to provide capital if the borrower is unable to repay its loan). It is a way for a foundation to mitigate risk for the lending financial institution.

CASH (Market-Rate): Market-rate FDIC-insured deposits are traditionally offered by banks, credit unions, and full-service community development banks. Most often these cash deposits serve as the backing for lending to low- and moderate-income communities.

FIXED INCOME: The most common type of fixed-income instrument is a bond, typically issued by governments, municipalities, or corporations. These bonds are contractual obligations that the investor will receive fixed interest payments over a set period of time with the additional expectation that the bond issuer will repay the principal upon maturity of the bond.

PUBLIC EQUITY (Stocks): Individuals and organizations can buy shares or stock of a company through a public market such as the New York Stock Exchange or NASDAQ. Impact investors typically screen these investments for fit with mission. (See Socially Responsible Investing on page 11.)

PRIVATE EQUITY: The sale of stocks in companies not traded publicly on the stock market. Private equity can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or strengthen a balance sheet.

The chart below illustrates opportunities throughout the spectrum in several issue areas.

	Liquidity	Income & Wealth Preservation			Capital Appreciation & Wealth Growth			Inflation Protection	
	Cash/Cash Alternatives	**Notes/ Other Debt Obligations**	**Bonds**	**Absolute Return/ Low Equity Correlated**	**Public Equity**	**Equity Long/ Short**	**Private Equity**	**Real Estate**	**Commodities & Other Real Assets**
Climate Change	Green Deposit Bank		Tax-Exempt Green Bonds	CO^2 Trading	Positive & Negative Screening		Clean Tech Venture Capital	Green REITs	
Energy			Screen Corporate Bonds	Alternative Energy Project Finance	Exchange Traded Funds	Renewable Energy	Energy-Efficient Venture Capital		Sustainable Feedstocks
Water			Corporate Infrastructure Bonds	Water Treatment Project Finance	Unit Investment Trust, Closed End Funds	Water Funds	Water Technology Venture Capital		
Community Development	Community Bank CDs	Foreclosure Repair		Micro-Finance Institutions Debt	Shareholder Proxy Voting		Community Dev. Venture Capital	Transportation Smart Dev. Funds	
Social Enterprises		Social Enterprise Credit			Micro-Cap Listed Social Companies		Small & Medium Enterprise	Conservation/Eco-tourism	
Health & Wellness		Bridge Financing		Structured Public Note			Consumer Product Venture Capital	Organic Farming	
Sustainable Development	Trade Finance Guarantee/ Deposit		Smart Growth Municipal Boards	Blended Debt Equity Hybrid Structures	Thematic Screening			Ranch Land, Agriculture	Sustainable Timber
Education	Linked Deposit/ Guarantee		Charter School Bonds				Education Private Equity	University Green Building	

Rockefeller Philanthropy Advisors, *Solutions for Impact Investors*, 2009

THE DIVEST/INVEST MOVEMENT

Individuals and foundations seeking to use their assets beyond grants to achieve social goals have many options. Investors who are interested in climate change may consider divesting from fossil fuels and investing in companies that are more aligned with their values, which is the objective of what's become known as the divestment, or divest/invest, movement. The divestment movement began with a group of college students who asked their institutions to back away from any existing investments in fossil fuels and instead invest those assets in more climate-friendly portfolios. The movement, though still in its infancy, has already garnered interest from a diverse range of individuals and institutions, including universities, faith-based organizations, foundations, health-care providers, local governments, and nongovernmental organizations. The Divest/Invest website has more information on the initiative. The movement is modeled on the apartheid divestment movement of the 1970s and '80s, which sought to move investments out of South Africa to pressure the government to change its apartheid policies. Other investors have divested their portfolio from weapon manufacturers, tobacco companies, and other fields that do not align with their mission and values.

INVESTOR SPOTLIGHT

QUESTIONS FOR IMPACT INVESTING ADVOCATE FLOYD KEENE

FLOYD KEENE IS PRESIDENT AND FOUNDER OF THE TRIPLE EEE FOUNDATION IN CHICAGO. HE ADVOCATES NATIONWIDE FOR IMPACT INVESTING, AND HIS FOUNDATION'S ASSETS ARE CURRENTLY 100 PERCENT IMPACT INVESTED.

Q: When did you first become interested in impact investing?

A: I first heard about it over 14 years ago at a conference in Chicago. One of the panels addressed a concept called social investing, which involved foundations using their investable assets (95 percent of their corpus) to serve their mission and goals, in addition to the 5 percent that they normally give away. What a concept! If fully achieved, a foundation could have up to 20 times its current impact on society. I remember leaving the room thinking, "This is the greatest thing I have ever heard of." Within a month, my foundation began our lifelong adventure with impact investing. I did not dive into it all at once, but by 2006 the foundation was 100 percent socially invested, and has remained that way until today.

Q: Knowing what you know now, what would you have done differently?

A: My experience has been so positive, I should have done more of it sooner. There were many situations and opportunities that I would have invested more money in—sometimes five or eight times more—but I didn't out of caution. That said, it's important for investors to start cautiously and to allow the foundation and its board to become comfortable with the practice.

Q: What has surprised you most about impact investing?

A: I thought it would be easier. It took the foundation six years to be fully invested, which is not an unusual length of time. I was surprised at how difficult it is to become aware of good impact investing opportunities. There are a lot out there—and even more today than in the past, but for a smaller foundation it's hard to find them.

Q: How do you find transactions?

A: An effective tactic is to make connections with experts at conferences, where you can become aware of new ideas, if not specific investments.

Q: What type of transactions do you target?

A: I like making investments in fixed income, because they are easier to find and easier to do than those in public equity, private equity, or funding a small entrepreneur. I also like PRIs because they have the potential for greater impact: you loan the money but get it back to loan it out again.

Q: What would you most want potential impact investors to know?

A: Impact investing is important, omnipresent, and here for the long term. Not using it deprives a foundation of one very effective tool in its tool bag. Avoiding social investing is simply a missed opportunity to better serve the foundation's goals and values—whatever those goals and values may be.

3. OPPORTUNITIES AND CHALLENGES FOR SMALL-STAFFED FOUNDATIONS

LUTHER M. RAGIN JR. IS THE FORMER PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE GLOBAL IMPACT INVESTING NETWORK (GIIN) AND HAS HELPED ACCELERATE THE DEVELOPMENT OF THE IMPACT INVESTING INDUSTRY. WE ASKED HIM ABOUT THE CHALLENGES AND OPPORTUNITIES THAT SMALL-STAFFED FOUNDATIONS ENCOUNTER WHEN INVESTING FOR IMPACT.

Q: How does impact investing from small-staffed foundations help create impact?

A: The same way it would from foundations with large staffs or from other philanthropically minded organizations. But small foundations are unique in two noteworthy areas:

Flexibility. Their small size makes for nimble structures that can adapt or respond more readily than larger foundations. This nimbleness leads to clear signals on the part of funders and allows asset managers and social entrepreneurs to make sharp decisions based on these signals. It's better to get a "no" in a matter of weeks than after a process of several months.

Specialized Knowledge. Small-staffed foundations have unique understanding and expertise in particular geographic or program areas, or both. This can be leveraged to attract other outside investors who can capitalize on the foundation's connections to the community.

Q: What are some of the specific strategies leaders in small-staffed foundations can use to play a role in moving capital in markets including or beyond their traditional grant-making activities?

A: Typically, there are two constraints perceived by small-staffed foundations in regards to impact investing. The first is the concern over the size of their investment and whether it is able to be meaningful to the project. The second is if there exists the requisite in-house knowledge and expertise to effectively carry out the investments.

One successful strategy to answer both these concerns is participation in a note program, sponsored by well-known and often well-capitalized nonprofits. The Calvert Foundation Community Investment Note program, for example, allows foundations with $100,000 or more to participate in community investment projects that vary by geography and program areas. Both the capital and the risk are pooled to provide opportunities that without this aggregation function would otherwise be less accessible. So foundations that may not have considered, say, microlending in Africa, or affordable housing on the West Coast, now have an opportunity to undertake these activities. In exchange, they receive access to a diversified portfolio, and a simplified and strategic way to do so. This is a way for foundations to directly address the two perceived constraints with shared learning and pooled due diligence. Other note programs include Enterprise Community Impact Notes (affordable housing), Coastal Enterprises—CEI Investment Notes (economic development and real estate in Maine), and Nature Conservancy Conservation Notes (land and water conservation).

Q: How can small-staffed foundations engage in impact investing in ways that other foundations may not?

A: One way that small-staffed foundations can engage is working with community development financial institutions (CDFIs). This is an area that larger foundations do not typically explore, and one where small-staffed foundation are well positioned because they know the participants, understand the value, and can see the effects of their investment firsthand. When foundations work or invest with local community development banks, they are partnering with institutions that have a specific mandate for that community. There are more than four dozen CDFIs throughout the country that are commercial banks. Investing in the Certificate of Deposit Account Registry Service (CDARS), for example, is a convenient way for dollars to have impact with low risk. CDARS provides an FDIC guarantee on traditional certificates of deposit in amounts in excess of the usual $250,000 limit.

Finding investment opportunities across issue areas, geographies, and asset classes is often a challenge for the small-staffed foundation. For this reason, the Global Impact Investing Network (GIIN) has developed ImpactBase, an online directory of impact investment funds and vehicles. It is an invaluable tool for foundations beginning an impact investing program, or looking to expand into new asset classes, geographies, or issue areas. Once an opportunity is identified, foundations can bring it forward to their board or consultant and take the next steps.

Q: What is one thing about impact investing that tends to surprise small-staffed foundation leaders? What are some of the most common questions you field from these funders?

A: The first is usually "Where do we originate transactions and find investment opportunities?" This is a common question because beginning an impact investing program can be daunting after a long tradition of grant making. The GIIN's ImpactBase is an effort to address this uncertainty, and scale the work of many by aggregating resources and sharing information.

"If $500,000 is a large investment for my foundation, are we frozen out of this marketplace?" The answer is no.

They also ask about where they can go for help with support and due diligence once they find an opportunity. The answer to this question depends, of course, on each foundation's investment strategy. Sometimes support can be found through the traditional channels of financial advisors, and others call for the help of a consultant with experience in a particular area. The solution here is really individual to the foundation's internal protocols and strategic plan.

Others ask, "If $500,000 is a large investment for my foundation, are we frozen out of this marketplace?" The answer is no. Cash equivalents and note programs, as mentioned above, are good examples of ways to engage at any funding level. Resources such as ImpactBase are searchable by a number of variables, including funding amount. Small-staffed foundations will benefit from knowing the breadth and variety of current opportunities and will be empowered by envisioning their impact at any level.

ROLES YOUR FOUNDATION CAN PLAY IN IMPACT INVESTING

INVESTOR: Using impact investments to support providers of important social or community development services as they grow their organizations. Depending on a foundation's investment goals or return expectations, there are many roles it can play as investor, such as seed or catalytic investor, growth investor, subordinate investor, senior investor, or limited partner.

PARTNER: Partnering with other investors or stakeholders to leverage multiple sources of capital to reach collective social goals.

CAPACITY BUILDER: Offering grants, technical assistance, or investments that build capacity in organizations and investment intermediaries to invest for impact in targeted areas.

ENGAGER: Building awareness and offering opportunities to donor communities, such as peer donors, for impact investing, providing a central point of entry to the field for donors.

INFORMER: Using your knowledge of the needs and intermediary (nonprofit and for-profit) capacity to inform potential impact investors of opportunities in the issues or geographies they care about.

INVESTOR PERSPECTIVE

STARTING WITH IMPACT

By LUCY CANTWELL, NEW BELGIUM FAMILY FOUNDATION

Many people are beginning to intuitively grasp the promise of impact investing but struggle with how they might participate. Finding a balance between the traditionally "hard" skills of finance and the "softer" considerations of impact is an opportunity for foundations and advisors alike.

We started, as many foundations do, by incorporating the beliefs and intent of our founder. Kim Jordan started the foundation with her family after New Belgium Brewing Company—the company she co-founded and runs as CEO—became 100 percent employee-owned through an employee stock ownership plan in 2012. In addition, the company has a long history of environmental and socially responsible practices, and we wanted to ensure the foundation would reflect that history. We knew that we wanted to pursue impact investing, as it dovetailed with Kim's belief in the transformative potential of business, but we didn't know how to execute that vision.

Interviewing investment advisors and learning each of these groups' definitions of impact investing helped us articulate our own goals. Although financial return was important to us, we cared more about maximizing our potential impact—a surprise to many advisors. We realized that a 100 percent commitment to impact for our then $7 million portfolio was essential—a way of activating our 95 percent as well as our 5 percent payout. We wanted to support thoughtful businesses like the one created by Kim, and we also wanted to help signal to the mainstream financial system that there are investors who privilege value creation that goes beyond shareholder value. During this time we also refined the core values of the foundation and added an emphasis on taking risks and collaboration. After talking with potential advisors, and learning what leeway there was to support our vision of impact investing, we settled on a boutique impact investment firm to manage our corpus.

Adopting an impact investment policy statement with the help of this firm further clarified the structure we needed to implement. It takes an immense amount of innovation to invest an entire portfolio in traditional asset classes while seeking to maximize impact and returns and minimize risk, and we hired this firm for its leadership in this space. That was only half of our vision for impact investing, however; we realized that our interest in impact first, high-risk, early-stage investments should sit outside of our advisor's management, so as not to confuse it with the returns-first focus that they take as our investment advisor. So, we decided to build our internal capacity to carry out investments in for-profit companies operating in the service of our philanthropic goals. Now we have the firm managing our corpus and an internal team managing our grants sourcing and reviewing early-stage companies.

To build the necessary internal capacity, we talked to people who were already in the space and slowly refined our working model. There are many high-net-worth individuals, foundations, family offices, and institutions that are working on the types of direct investments we were envisioning and set an example we could learn from. Once we established our internal parameters, the "how" questions began: How to find these opportunities? How to evaluate them? How to communicate them to board members without overloading them with information? We slowly were able to find our own way forward. We joined Investors' Circle and Toniic to gain exposure to viable transactions. We developed a worksheet to ritualize how we evaluate potential companies. We decided that our board would give a thumbs-up or -down on the concept of a specific investment but it's up to the foundation's investment committee to complete due diligence and negotiate and approve term sheets. It took time to make each of those decisions, but now we have a process we're confident in.

Like employing an experienced impact advisor, we also found it beneficial to collaborate with more experienced impact investors on the early-stage deals. Through one of our board members, we had a relationship with an impact business incubator competition. We were able to piggyback on the organization's sector knowledge, due diligence process, and deal flow network. We also committed to invest alongside them in the two (at that point undecided) winners of the cohort of start-up energy companies. It also helped from a psychological point of view that this type of co-investing allowed us to invest a relatively small amount of money in each venture. By partnering with a trusted organization, we were able to invest earlier than we otherwise would have in companies we would not otherwise have seen, and build a relationship that we hope will be helpful and productive.

In reflecting on the short history of the foundation, we're proudest of our decision to move slowly and stay curious. Doing both of these things allowed us to articulate our own goals and find ways to work toward them—something that takes some creativity with only 1.25 employees. This is certainly a long process; at the time of writing, we have closed two early-stage investments and one investment in an impact fund. We have also committed to invest in two more companies and have a number of opportunities in our diligence pipeline. But we've given ourselves the time and space to experiment, and that continued exploration gives us greater hope than an overly rigid strategic plan.

If we could emphasize several key points to people or institutions interested in moving into this impact investing space they would be:

HAVE A LEARNER'S MENTALITY. This is a new field and it is okay if your version of what you want this to look like isn't reflected in the advisors and others you're talking to. You get to make your own balance between the "soft" and "hard" skills, and should not feel pressure from anyone to conform your vision to fit what they have on offer (though they might make good points). This means that you need to spend time getting clarity within your organization or decision-making stakeholders. It is okay if your vision evolves. But by being on the same page internally, you make the conversations with outsiders more productive.

GO SLOWLY. Because of the philosophical nature of this work, it takes time to get clear on your goals. If you rush into partnerships or investments before those conversations are thoughtfully exhausted, you might end up regretting that work later. Regrets are fantastic learning experiences, but that doesn't mean you should set yourself up for them.

GET EXCITED! This is an exciting space and a wonderful time to be a part of it. If you stay thoughtful and patient, and surround yourself with experienced practitioners you respect, you will have set yourself up for successful exploration.

PART II: PREPARE TO INVEST FOR IMPACT

Do I have buy-in from my board? What's the best strategy for my foundation? Do we have the right expertise—and if not, where can we find it? What policies and processes do we need to have in place? This section will help you answer these essential questions.

4. ENGAGING AND MAKING THE CASE TO TRUSTEES

By DAVID WOOD, INITIATIVE FOR RESPONSIBLE INVESTMENT

The early stages of impact investment adoption for foundations lie at the board level. The idea to explore impact investment as a philanthropic strategy often comes from a single board member, or from staff or consultants who have seen other foundations adopt impact investing. Board engagement is a critical next step for implementing an impact investing strategy: learning what individual board members think about the possibility, educating the board on the state of the field, and taking a broad survey of potential areas of interest or investment opportunities that engage the board's imagination.

In most cases, board approval is required for a foundation to engage in impact investing, and that often requires ongoing, high-touch engagement from impact investing champions—whether staff or fellow board members. Early board engagement often involves peer-to-peer presentation from board members who are more familiar with the field—and an allaying of the skepticism of board members who may fear that impact investments may not perform well financially or socially.

At this stage, boards will want to understand their options, by:

- Reviewing the practice of peer institutions to see how impact investing operates

- Understanding the existing literature on impact investing performance
- Identifying examples of impact investment policies, and investment vehicles, that illustrate the strategy's potential

When reviewing the field, boards are likely to want to know:

- What are the financial implications of different mission investing strategies?
- What are the range of possible investments and strategies that target specific sectors or places?
- How resource-intensive are different impact investing strategies?
- Who can the foundation engage to learn more?

In thinking about how to engage a board on impact investing, these suggestions may help ease the process:

IN YOUR INTRODUCTORY CONVERSATION, FIGURE OUT WHAT THE BOARD'S TOP QUESTIONS ARE. Some boards or specific board members may question the fiscal responsibility of impact investing, or have narrow understandings of what impact investing could look like. Understanding the range of specific questions that the board is wrestling with up front will help you tailor future conversations to substantive debate and move the process along more efficiently.

BRING IN OUTSIDE EXPERTS AND PROVIDE AN OPPORTUNITY TO LEARN FROM PEERS. Hearing the experiences of peers and being able to engage with experts on areas of concern or confusion can help board members feel more comfortable with beginning an impact investing strategy. In particular, information from similar foundations on their process and investment experiences is valuable. If possible, taking field trips to see examples of what impact investing has done in particular communities or on particular issues can often ground a very technical conversation in concrete outcomes.

UTILIZE INTERNAL BOARD CHAMPIONS WHERE POSSIBLE. Given the sometimes complex relationships between boards and staff, encouraging a board-level champion to step up and lead internal conversations can allow the conversation to avoid some potential internal strife.

SET REASONABLE EXPECTATIONS. Impact investing is not a panacea, and it comes in many different shapes and forms. Walking the line between explaining the virtues of impact investing while not overpromising on financial or social returns is crucial to building ongoing board support. Suggesting a small pilot program or iterative process may help assuage some larger concerns about the financial and resource implications of impact investing.

Board engagement and agreement is crucial to the development of an effective impact investing strategy. Without such engagement, impact investments may take place haphazardly, be held to different standards from conventional investment strategies, or create confusion or concern in board-staff or board-consultant relations. Clarity about the goals the board has for impact investing, and its place in the broader range of foundation activities, lays the groundwork for establishing strategy and implementing an impact investing program.

FIVE TO-DOS FOR FOUNDATION "CHAMPIONS"

1 Take Stock of Family and Board Dynamics

Who among your family or board members will be a natural champion of impact investing? Who might be resistant—and why? Who has investment expertise? Knowing your foundation's internal capacity and enthusiasm for impact investing will help you determine what information you'll need to present to the board, anticipate questions, and find the correct resources.

2 Check In on Capacity (and Add Capacity as Needed)

Foundations that are weighing if and how to begin impact investing should start by assessing what resources they can bring to the endeavor. How much time and expertise can the foundation (and its board) commit to advancing this work? This is no small consideration for unstaffed foundations or those who are not dedicated full time to their foundation work. Some families address this challenge by having one family member lead the work; others form committees or bring on external advisors or intermediaries. (For more on how to address capacity constraints, see Chapter 6.)

3 Establish Clear Goals

Why is your foundation exploring impact investing? What does it hope to achieve? What impact do you hope to create? What can you do that you would not be able to do with grants? What can you do to supplement or support your grants? Answering these questions can help you focus and right-size your efforts.

4 Develop a Clear Message

Articulating how your impact investing goals relate to the foundation's desired impact can help you make your case to your board. It can also help your current grantees and partners understand how your efforts align with your grant making, and how they may leverage your investments.

5 Loop in Your Advisors

Talk to your family offices or wealth advisors to understand their level of support for impact investing, the role they might play, and whether you might need to find other partners to also support this work.

THE ROLE OF FIDUCIARY RESPONSIBILITY IN IMPACT INVESTING

By VICTOR DE LUCA, JESSIE SMITH NOYES FOUNDATION

A question that trustees frequently raise early when discussing impact investing is how it squares with their understanding of fiduciary responsibility. Isn't it the responsibility of the board to ensure that foundation investments are designed to maximize returns?

In the mid-1990s, the Jessie Smith Noyes Foundation's board asked this very question. Like most foundations, the income for our grants and operating expenses comes from the investment of our assets. Isn't it logical, then, that our responsibility is to maximize this income at all costs?

We decided it was not. We believe our fiduciary responsibility does not end with maximizing return and minimizing risk. In our opinion, given the social, environmental, and economic challenges of our time, the responsible investor must integrate prudent financial management practices with concerns about environmental stewardship, healthy and safe communities, and corporate accountability.

We believe a foundation's investments should be true to its values and mission. This includes using its assets to make an impact and harmonizing philanthropic mission and endowment management. Providing capital to further the foundation's mission is as important a responsibility as generating income necessary to support its grant making. The primary fiduciary responsibility for foundations and other charities is loyalty to mission and not the bottom line.

Find more essential information that will help in understanding the role of trustees in "A Guide to the Fiduciary Duties of Foundation Directors Related to Mission Investing" by Tomer Inbar of Patterson Belknap Webb & Tyler LLP, in the appendix.

5. DEVELOPING YOUR STRATEGY

By CYNTHIA MULLER, ARABELLA ADVISORS

A clear, considered strategy is vital to the success of your impact investments. By articulating your goals before you start investing, you will be able to choose the best approach to assess opportunities, plan how best to use your resources, build efficient staffing structures and internal processes, and establish how you will measure the impact of your investments.

When developing an impact investing strategy, the first question to ask yourself is what you'd like your investments to do. You can use your impact investments to catalyze a new organization or field, complement the efforts of other funders and scale innovations, convene and collaborate with other investors, generate revenue, ensure the sustainability of your foundation, or some combination of those objectives. Understanding what you want your investments to do and the role you want to play in the field will help you develop a specific strategy. As you develop this strategy you will want to answer the following questions:

What is the impact you want your investment to make?

The first step in developing a strategy is to establish your impact investment focus: the issues or geographies (or both) you'd like to target and how they might align with your foundation's mission, vision, and values. One way to get started is to examine your existing grantee portfolio and look for investable opportunities within those organizations that complement your grant making. For example, you may have given grant funding to a nonprofit focused on affordable housing in the United States. That nonprofit may also have an existing investment fund or need financing to build facilities, buy land, or launch a revenue-generating enterprise.

Another way to get started is to reach out to peer funders or other practitioners to learn more about trends in issues, geographies, and investment structures about which you are curious. This allows you to learn in real time about the on-the-ground capital needs and the feasibility of an investment in that specific area. It will also point you to areas where there is already momentum, so that your collective investments have greater impact. Another way to determine your impact investment focus is to see if your portfolio currently contains any investments with a social or environmental lens.

What vehicles do you want to use?

The first consideration in determining the type of vehicles to employ is identifying your risk tolerance. There are impact investing opportunities along the entire risk spectrum. While you can make higher-risk private equity investments, many lower-risk, fixed-income investments are also available. (See Chapter 2 for an illustration of the full spectrum.)

If you are just beginning to invest for impact or if you have limited in-house capacity to support your investments, you may consider starting with a lower-risk, fixed-income investment. This offers predictability and lower-capacity needs. As you and your foundation become more experienced with impact investments, your tolerance for risk may increase, and you can refine your strategy accordingly.

Do you want to invest directly or indirectly?

There are two overarching ways to make impact investments: either directly or indirectly. Direct investments are made directly to organizations, companies, and nonprofits. Indirect, or fund investments, are made into funds that pool capital and then deploy that capital into organizations, companies, and nonprofits. These funds can be intermediaries, fund managers, or other asset managers. Deciding between direct or indirect investments is an important part of your overall strategy and has implications for your foundation's capacity and time.

Investors often make direct investments because they want to play a catalytic role in an issue and geography. Direct investments are more resource-intensive, as they require the investor to have the capacity and expertise to source and structure customized transactions, as well as providing ongoing engagement in the form of board engagement, technical assistance, or mentorship. Investors tend to make direct investments when they have the internal resources and when the opportunity directly aligns with the foundation's goals.

Investors can also make indirect investments into funds. Investors may choose to invest in funds to diversify their risk and invest in many organizations, companies, and nonprofits within a single issue area or across issue areas. Fund transactions also allow investors to leverage their investment with other investor capital, which increases the scale and impact of the fund's investments. Having multiple investors streamlines the process.

When deciding whether to make direct or indirect investments, you should determine how involved you want to be in any given opportunity. For example, when making a direct investment you may be offered opportunities to take board or committee positions to help guide the enterprise, which is a significant time commitment. An alternative is to invest in an established fund, which would require less involvement.

It's important to determine the method you'd like to use as you develop your strategy, since each has implications on your capacity and risk level.

Once you've considered all these questions and developed a strategy that reflects what you want your foundation's investments to do and the role that you want to your foundation to play as an investor, you should choose a portfolio approach that best fits that strategy. (For how to capture your strategy in an investment policy statement, see Chapter 7.)

FINDING A PORTFOLIO APPROACH THAT FITS YOUR STRATEGY

The five impact investing approaches that follow are some common ways foundations implement their strategy. Each involves different types of investments and different levels of capacity.

INDIVIDUAL OR ONE-OFF TRANSACTIONS: Small-staffed foundations can make investments sporadically as opportunities arise that align with their goals and impact investing strategy. This allows the foundation to be flexible, but may cause it to run into capacity constraints when sourcing and conducting due diligence on transactions, since its staffing expertise and structures are not designed to support frequent impact investing.

PROGRAM-RELATED INVESTMENT APPROACH: Private foundations can take a program-related investment (PRI) approach by making only below-market-rate investments that count as a part of their 5 percent annual payout—the portion of a foundation's endowment that the IRS requires it to disburse each year for charitable purposes. This approach consistently integrates impact investing into the foundation's broader goals and strategy while preserving capital. With this approach, foundations without in-house expertise can easily fill capacity gaps by bringing on outside consultants and practitioners to support PRI sourcing and due diligence.

MISSION-RELATED INVESTMENT APPROACH: As opposed to PRIs, which target investments that generate social and environmental impact and below-market rates of return, mission-related investments (MRIs) aim to achieve social and environmental impact while targeting risk-adjusted market-rate returns. In some cases, your existing advisor can support these transactions. (See Chapter 6 for more about choosing and working with advisors.) A foundation will undertake a MRI for one or two primary purposes. The first is to align the organization's broader investable assets with its objectives by actively seeking investments that advance its social and environmental goals. And the second is to actively use mission-related investment to grow the foundation's assets. It is less common for a foundation to use this MRI-only portfolio approach; foundations more commonly use MRIs in combination with PRIs or alongside screens (see below).

Understanding what you want your investments to do and the role you want to play in the field will help you develop a specific strategy.

HYBRID PRI/MRI WITH SCREENS APPROACH: Foundations can also take a hybrid approach and make PRIs while also dedicating a portion of their broader portfolio to MRIs. Foundations may decide to develop a single strategy for their PRIs and MRIs or they may choose to create two separate strategies. Foundations may also decide to integrate socially responsible investments (SRI) or screen for environmental, social, and governance (ESG) factors in their portfolios. While both program- and mission-related investing actively aim to achieve positive social and environmental impact, socially responsible investing applies criteria—or screens—to avoid making investments into companies that produce or sell products and services that could be considered harmful to the environment or society. ESG investing also applies screens to investments, but instead of screening out investments with negative impacts, ESG screens are applied to invest in companies with positive environmental, social, and governance performance. While ESG investing focuses investment into companies that have positive environmental, social, and governance practices, it differs from mission-related investing in that these companies' activities do not intentionally generate social or environmental impact.

Taking a hybrid approach—incorporating PRIs, MRIs, and SRI and ESG investing—can require significant staff capacity, especially if the foundation is implementing separate strategies for PRIs and MRIs. In addition, a hybrid approach often requires integration and coordination of consultants and advisors. While this approach requires more resources, it allows a foundation to activate a greater portion of its resources to achieving social impact.

FULL-PORTFOLIO ACTIVATION: Foundations may choose to activate their entire portfolio through program- and mission-related investments, as well as SRI or screens for ESG factors. Full portfolio activation can also require substantial staff capacity and often necessitates integrating consultants and advisors. (See Chapter 6 for more on consultants and advisors.) In investing their entire portfolio, foundations may also encounter challenges sourcing the volume of transactions required to invest available capital. Despite the challenges and capacity requirements involved in activating a full portfolio, foundations that take this approach are able to use all of their available resources to achieve impact while realizing financial returns.

INVESTOR PERSPECTIVE

F. B. HERON FOUNDATION'S MOVE INTO DIRECT INVESTMENTS

By KATE STARR, STARRIA, AND FORMERLY OF THE F. B. HERON FOUNDATION

At Heron, we wanted to explore how to invest more directly in enterprises. We had made many grants to nonprofit organizations over the years, but very few direct investments in for-profit companies. The attraction was simple: we wanted to drive Heron's investment closer to job creation for people at the low end of the wage scale. We knew that we'd be taking on more risk but we thought that it might be a way to drive more impact.

In a typical private equity or venture capital fund, you have a few successes, a few failures, and a few middle-of-the-road investments. We saw the same pattern in how funds delivered social results. We wanted a way to get more exposure to the companies that we thought would deliver success in job creation. With direct investing, we reserved our management capacity and risk budget to make direct investments in areas where we had an outsized potential for mission returns. Our criteria included investments in growth-stage companies, where revenue is growing with at least visibility into profitability, and in companies that employ people, especially those at the entry level or in a high-unemployment area. In 2011, we made our first direct investment in a sustainable packaging company, EcoLogic. EcoLogic's product replaces plastic packaging with paper-board packaging that's not only 99 percent recycled and recyclable, but also lighter to ship, which reduces emissions. Beyond the environmental benefits, we were interested in this company because it had the potential to create 150 jobs in an area with high unemployment.

Because we invested alongside a trusted fund manager, DBL Investors, we were able to call on their expertise and knowledge about the company. We deepened our relationship with the manager by having detailed conversations about companies in their pipeline, how their business models work and create jobs, the quality of the management team, and how the financial and nonfinancial aspects of management interact. This deeper engagement—and the ability to watch the company's performance in real time—made us better investors.

Of course, these sort of direct investments take more time than indirect ones. So we made sure we had people on our team and outside advisors lined up who monitor the company on a quarterly basis, track financial and operating metrics, and understand the business well enough to keep up with developments (and there are always developments). By partnering with a fund manager, we created a more efficient and expert process from sourcing to monitoring than we could have built on our own.

The foundation has made two direct investments thus far, and it's added about three to four additional person-days a year to underwrite and manage them. (It doesn't sound like much, but remember, our fund managers spent the time and effort to identify and vet these companies before we considered them.) Along the way, we learned that the biggest factor for success is the enterprise's management team. It's vital that they not only have the mission at heart, but that they have the capacity to execute on their vision. How cohesive is the team? How well do they work together? Is the market responding to their sales efforts? If you can't get a good view on that, I'd advise you not to make an investment.

When you have directly invested you feel the bumps in the road more than when you use an intermediary. The feedback loop is a lot shorter, and you learn that just because you're hearing about problems more quickly, you don't always need to get involved right away—sometimes things will right themselves, especially given that we're invested alongside a trusted and experienced general partner.

While direct investments may not always produce more impact than indirect investments, it can help a company raise capital more quickly at critical points in its growth path. And it can help a foundation deepen its investment experience and understanding of what it takes to deliver success in both social and financial terms. At the end of the day, direct investing provides the opportunity to expand horizons for foundations' and companies' management teams alike.

THE HUNDRED-PERCENT CLUB

By PETER BERLINER, MISSION INVESTORS EXCHANGE, AND DAVID WOOD, INITIATIVE FOR RESPONSIBLE INVESTMENT

If a majority of foundations were to implement strategies using hybrid or full portfolio activation approaches, they could channel billions of dollars from foundation endowments or investment portfolios to social and environmental impact. Consider that while foundations together disperse an estimated $50 billion each year in grants, their collective endowments exceed $700 billion. Currently, only about one in seven foundations is actively engaged in impact investing and, of those, only half are using their endowed funds to do so.

One such foundation is the KL Felicitas Foundation, which in 2004 decided to begin the process of allocating 100 percent of its assets to impact investing. Over the past seven years, it has converted more than 85 percent of its assets to mission-aligned investments, while generating competitive, market-rate returns. Another family foundation, the Erich and Hannah Sachs Foundation, is deploying 99 percent of its endowment through PRIs that provide below-market capital to community development and other similar organizations. Not encumbered by a requirement that it live in perpetuity, the foundation has been able to elevate its impact by recycling repayments of principal into new investments. As a result, it will have deployed far more dollars through the life of the foundation than it would have by making grants alone.

Some foundations are leading the way by seeking to deploy 100 percent of their endowment assets in support of their missions. Not satisfied to limit impact investments to a small slice of their endowment or program assets, these investors have found like-minded investment advisors and fund managers to help them find suitable investments across asset classes. Once seen as an unrealistic target, 100 percent is becoming a way to distinguish a foundation's full commitment to impact investing in practice.

INVESTOR PERSPECTIVE

MAKING CATALYTIC AND DIRECT IMPACT INVESTMENTS

By JESSE FINK, BETSY AND JESSE FINK FOUNDATION

When my wife, Betsy, and I formed the Betsy and Jesse Fink Foundation 15 years ago to help solve large-scale environmental problems, we were faced with a big question: how could a foundation of our size be impactful when hundreds of billions of dollars are needed to achieve our mission globally?

We started with two core principles. First, as former entrepreneurs, we wanted to be catalytic—to take risks to prove new models, so that larger funders with less risk tolerance would feel able to adopt them, too. We focused most of our funding on seeding new organizations and pilots in the Northeast, where we have strong local relationships and knowledge.

Second, we recognized that the scale of environmental problems dwarfs available philanthropic capital, so we needed to find impact leverage wherever possible. This led us to invest in scalable solutions, such as innovative business models, technology, human capital, and market-based solutions. Once we began supporting market-based solutions programmatically, we recognized that we could also push the field forward through impact investing (which we called “issue-based investing” before there was a common name for it).

We first researched and implemented a half dozen PRIs, including more traditional loans for low-risk land conservation projects, as well as higher risk loans for unsecured food hubs and food recovery projects. We also made a few small investments in third-party funds focused on clean energy. We learned from some of the failures and saw the huge potential of the successes, and decided to make mission-aligned impact investing a core of our work.

Recently, we asked our long-term trusted advisor Mark Cirilli, co-founder and managing director of the impact investing advisory firm MissionPoint Capital Partners, to help draft a comprehensive impact investment strategy and policy for our foundation. The resulting document, built in partnership with our trustees and team, codified a few core values that have driven our work:

- All investments have impact of some kind, be it positive or negative. Our foundation's long-term objective is to align our investments with our mission in order to maximize the positive impact in our chosen focus areas.

- Our investment policy must follow best-in-class standards of prudent investing and fiduciary duty, including a detailed investment and diligence process to ensure our liquidity requirements are fulfilled and our investments meet certain standards of expected financial return, risk, and impact.

- Our foundation will pursue a full-spectrum investment strategy by evaluating how passive and direct MRIs, PRIs, and grants can collectively support our mission.

- Our mission and team's expertise provide us with a relatively high risk tolerance, and a focus on direct investments that fit our goal of being catalytic and achieving outsized outcomes.

To achieve these goals, our foundation has built the following structure:

- Our foundation and MissionPoint focus on two to three subsectors at a time for both our investment and strategic programmatic activity. This allows us to focus our resources to conduct research, establish a wide network, and develop a strong impact investment thesis on these topics. Past topics have included green and natural infrastructure, controlled environment agriculture, and food waste.

- We are working closely with MissionPoint Partners to evaluate all direct MRIs and PRIs across both financial and impact metrics. Our foundation is highly engaged in these direct investments. We try to do a limited number of transactions (one to three per year), which allows us to dedicate the time to meet and evaluate the management team, deeply understand the market, and assess both the impact potential and financial opportunity. We will measure impact using a few direct impact metrics, including cost-effectiveness, as well as metrics that track follow-on capital and spillover benefits to the sector.

- For our direct investments, we are working with a small group of aligned families, foundations, and other institutions to take a strong investment position in businesses with the potential to scale transformative new business models to tackle major environmental problems. This has created an investor base that is both investment savvy and impact-aligned, and it allows us to pool our resources and best thinking on each transaction.

- We work with a separate advisor who specializes in mission-related passive investments in diversified funds. Our staff spends less time on these investments since the potential for catalytic impact is smaller, and there is a stronger emphasis on meeting financial, liquidity, and risk goals. When possible, we welcome the opportunity to act as a seed investor into new funds. We have also made a commitment to divest ownership from fossil fuel companies and have a new interest in assessing the risk that climate change brings to the portfolio.

As a small-staffed foundation, we have experienced challenges like many others, but we see the opportunities. As Mark Cirilli has noted, “We can play the role of lowering the cost of capital so traditional capital sources can invest and add real scale and replicability to the solution.” We recommend that foundations focus on sectors, geographies, or investment areas in which the team has the knowledge and passion. This allows the staff to build sector-leading expertise, to develop relationships with top experts in the field, and to add more value to each part of the investment portfolio. We have done this in the environmental sector, from our early work in land conservation to energy efficiency and now building a road map for food waste. By working together, foundations can also pool their resources on each impact investment.

Our 15-year journey has been one of learning, experimentation, compassion, and fun—but sometimes we feel that we are just beginning. We look forward to working with other family foundations, particularly those with environmental-related missions, to take the next step toward using investments to drive their impact.

INVESTOR SPOTLIGHT

THE SACHS FAMILY FOUNDATION'S STRATEGY FOCUSES ON PRIs

Imagine cash flow that allows you to cover all of your administrative costs and preserve your corpus. This is what northern California-based, small foundation executive Caryn Sachs and her family have accomplished by engineering a program that drives 99 percent of its charitable payout through PRIs.

Having gained expertise in this practice over 15 years, Caryn Sachs, president of the Erich and Hannah Sachs Family Foundation, says, "PRI is our mantra. The PRI process's additional measures of accountability (due to the investees' obligation to make quarterly interest payments and provide financial reports) allows us to have confidence and a more equitable relationship with investees than we would have with grantees. And because we are hands-on, our PRI relationships have become friendships."

The majority of the foundation's loans average $200,000 and are made through community development financial institutions. Loans have three- to five-year terms and interest rates from 2 to 3.5 percent. Payments are made quarterly, annually, or semiannually. Loans are frequently renewed and terms can be adjusted to fit the circumstances. The investments primarily support affordable housing organizations, but the flexibility of the PRI tool has prompted the foundation to explore domestic and global microlending and other sectors such as environment and conservation.

By focusing and standardizing processes, the foundation is able to manage with just one full-time employee (Caryn) and some outside accounting assistance. This strategy allows other family members to devote time to more mission-oriented tasks rather than administration.

Utilizing the PRI strategy makes the foundation's $16 million in assets go farther than grants alone would, with individual investment amounts up to $500,000. It can leverage dollars from other investors and its trustees are able to be at the center of high-impact projects such as drug rehabilitation centers, charter schools, theaters, and residential housing developments.

Caryn Sachs has provided counsel to many others wishing to explore the use of PRIs. Find examples of her foundation's impact investments on the Mission Investors Exchange website.

6. HOW TO ADDRESS EXPERTISE AND STAFFING NEEDS

By PETER BERLINER, MISSION INVESTORS EXCHANGE

To successfully develop an impact investing strategy, a foundation must consider its capacity needs, as additional resources may be required. Fortunately for foundations of any size, such resources may be available from current trustees or staff members, professional consultants and service providers, or peers.

How much capacity a foundation needs will depend on how it designs its impact investing strategy. Depending on the approach it takes (see Chapter 5), its needs may be met internally through trustees, external advisors, or staff. Alternatively, foundations may choose to partner with a peer foundation that has greater capacity to execute investments. In our experience, both staffed and unstaffed foundations have been able to develop impact investing portfolios.

Depending on the purpose and scope of a foundation's program, it may need added expertise to obtain deeper knowledge of specific issues, communities, and investment opportunities. In addition, a foundation may require technical assistance to address legal and financial questions, as well as to structure, underwrite, and monitor investments. Not every foundation will have all of these resources in-house, but it can still access the tools, people, and expertise needed to successfully invest for impact. Some key resources include:

1. WEALTH ADVISORS AND FAMILY OFFICES. Speak with your wealth advisor or family office about its capacity for impact investing and how it can complement your goals. Will your wealth advisor or family office be able to help you develop a strategy or coordinate work with consultants? What is their level of comfort with conducting financial due diligence on these types of transactions? Do they have capacity for ongoing monitoring of these transactions?

2. NETWORKS AND OTHER ORGANIZATIONS. Investor-driven groups such as Toniic, the GIIN, Mission Investors Exchange, CREO, Confluence Philanthropy, and others can provide information, assistance, and referrals to potential consultants and service providers. They also may be able to link you to sector-specific working groups and opportunities for collaboration or co-investing.

3. INTERMEDIARY ORGANIZATIONS OR INVESTMENT FUNDS OR POOLS. Depending on your area of interest, working directly with intermediary organizations including CDFIs, investment funds, or investment pools, such as Investors' Circle or Slow Money, in which like-minded investors have agreed to combine resources and invest as a group, can be efficient ways of making impact investments.

4. CONSULTANTS. Foundations can bring on consultants to augment short- or long-term capacity needs; help to assess the landscape; develop and refine strategies; source investments that align with your strategies; conduct social and financial due diligence; structure, close, and monitor investments; and evaluate the impact of your portfolio.

HOW TO PREPARE STAKEHOLDERS FOR IMPACT INVESTING

Designing and implementing an impact investing program is often a team effort that involves some combination of trustees, executive leadership, program staff, and financial consultants and legal advisors. Here are some topics that specific stakeholders will want to know more about:

1. Trustees

- Key terminology and concepts
- Examples, case studies, and outcomes
- Investment opportunities and options

- Needs and opportunities
- Potential risks and returns
- Key policy questions and frameworks

2. Executive Leadership

- Experiences and lessons learned by peer foundations
- Legal, tax, and reporting requirements and regulations
- Fiscal implications
- Administrative and staffing requirements

3. Program Staff

- Alignment with existing grants program
- Criteria for discerning viable investment opportunities
- Communicating with community partners
- Identifying and assessing investment opportunities (deal sourcing)
- Monitoring and evaluation

4. Financial Consultants and Legal Advisors

- Purpose and goals of impact investing
- Social or environmental objectives
- Risk tolerance
- Area of interest and focus

FAMILY OFFICES

Family offices can be an integral part of deal making and day-to-day operations for family foundations and may offer resources such as in-house legal staff and financial administration and investment professionals. A foundation's relationship with the family office can range from full integration between the two staffs to an advisory and as-needed basis. For example, the Boone Family Foundation has full access to two investment professionals who work full time for the family office and who offer support to the foundation as needed, the HRK Foundation staff members regularly share resources with the family office staff, and the Betsy and Jesse Fink Foundation's foundation and family office staff are one and the same. (Read more about each of these foundations in case examples found here.)

Each approach comes with its own advantages and disadvantages, and which approach is right for your foundation depends on your current strategy, capacity, and needs. While an informal relationship allows for flexibility and for collaboration on an ad hoc basis, it can lead to complications when staff roles and boundaries are unclear. A family office staff that's dedicated to serving the foundation can offer efficiencies, but it also may pull staff members into conflicting directions. It's therefore essential that a foundation clearly articulate roles and responsibilities before taking its first steps in engaging a family office.

INVESTOR PERSPECTIVE

PARTNERING WITH LARGER FOUNDATIONS

By DOUG BITONTI STEWART, MAX M. AND MARJORIE S. FISHER FOUNDATION

Our foundation began impact investing with a lot of passion but not a lot of direct experience, so we knew had a great deal to learn. The board invited guest speakers who outlined the potential benefits of putting our assets to work for greater impact, we attended numerous conference sessions, and we gleaned what we could from the literature. Ultimately, we were hungry to learn alongside mission-aligned, like-minded people doing the actual work in the field. We found working with larger-staffed foundations that have dedicated mission-related investing staff has been one of the more effective ways we've learned about this important work. During the past three years we've focused on creating relationships focused on mutual learning and co-investing in transactions in order to learn.

We've built meaningful relationships with staff members who focus on impact investing in larger organizations, which has given us access to important discussions about strategy and long-term impact that otherwise we might not have had. These foundations are able to engage experts in the field to provide guidance, and often approach it as a collaborative learning opportunity by inviting other funders to join the conversation. For example, last year the Kellogg Foundation's mission-driven investing team invited us to an internal learning session with Social Finance US; we were able to share the notes from the session with other small-staffed foundation colleagues. This kind of teamwork helps accelerate everyone's work—and impact.

We've also learned by co-investing. One of our first co-investments was with our long-term partners at the Kresge Foundation in a fund focused on housing in downtown Detroit, the Woodward Corridor Investment Fund. Approaching the $250,000 investment as a learning transaction that also aligned with our mission-related goals helped our board to see the transaction as a good fit for the foundation. Partnering with other foundations allowed us to quickly learn and be more efficient with our investments.

CHOOSING AND WORKING WITH CONSULTANTS

Foundations of all sizes partner with consultants and financial advisors for a variety of reasons. Three common ones are: to receive support for discrete needs, to augment their existing capacity on a longer-term basis, and to use consultants' and advisors' imbedded capacity to implement their impact investing strategy. Foundations may choose different consultants or advisors based on the portfolio approach they use to implement their strategy. For example, when employing a hybrid portfolio approach, a foundation may hire a financial advisor with expertise in SRI and ESG investing, while choosing a separate consultant with the experience necessary to source and structure PRIs and MRIs.

Assisting discrete needs

A foundation that has chosen an independent transactions or PRI portfolio approach, or one that is just beginning its impact investing efforts, may hire a consultant or advisors to fulfill discrete needs such as landscape analysis, deal sourcing, social and financial due diligence, and portfolio monitoring and evaluation. When selecting such a consultant, consider:

- What types of investments has the consultant worked on in the past? What sectors is the consultant most experienced with?
- What relationships does the consultant have that your foundation could benefit from?
- What is the consultant's level of expertise on the issue at hand (such as education, environment, private equity, venture capital, microfinance)?
- What is the consultant's ability to customize its work to your foundation?

Augmenting existing capacity on a longer-term basis

A foundation that has a wealth or financial advisor may hire a consultant to complement those existing skills and resources, becoming an extension of your staff. This arrangement offers greater efficiencies, flexibility, customization, and a way to build deeper networks. It is particularly helpful for foundations that are taking a hybrid program-related/mission-related portfolio approach. When selecting a consultant to bolster your capacity, consider:

- What level of collaboration between you and your consultant would you like to have?
- What are the specific roles and responsibilities you want this consultant to take on? (For example, the financial advisor may be responsible for the financial due diligence, while the consultant would handle social impact assessment.)
- What is the consultant's track record for sourcing and closing transactions? In what sectors and geographies?

Offering imbedded capacity to implement your impact investing strategy

Foundations that are using the hybrid or full-portfolio activation approach often need a financial advisor who has the infrastructure to execute a comprehensive impact investing strategy that may involve socially responsible investing and ESG screens. When selecting such an advisor, consider:

- Does the advisor have dedicated impact investing staff?
- What experience does the advisor have working with foundations?
- What experience or expertise does the advisor have with socially responsible investing and impact investing?
- What is the advisor's track record in sourcing and closing transactions?
- What is the advisor's history of overall returns?
- How many assets does the advisor have under management?
- What is the advisor's capacity to customize its services?

FIVE BEST PRACTICES FOR RFPs

Finding an advisor who will best address your foundation's need starts with drafting a well-thought-out request for proposal (RFP). Here are some best practices:

1. **FINALIZE YOUR FOUNDATION'S IMPACT INVESTING POLICY AND BE CLEAR ABOUT ITS DESIRED ASSET ALLOCATION AND IMPACT OBJECTIVES.** This will help to zero in on the expertise you need, thus narrowing the list of potential advisors. (See Chapter 7 for more about impact investing policies.) Some foundations may seek a broader-based approach pursuing socially responsible investments (i.e., screened investments) while others want a more hands-on, targeted, and measured approach for impact, including impact investments across the asset spectrum.

2. **DON'T REINVENT THE WHEEL.** Connect with other foundations that have already conducted an RFP for a new investment manager or wealth advisor. Ask foundation peers for their opinions and experiences with specific firms and if they would be willing to share an RFP template as a starting point. (You can find sample RFPs from The Longbrake Family Foundation, NW Fund for the Environment, and others on the Mission Investors Exchange website.)

3. **KNOW THE THRESHOLDS.** Some firms have minimum endowment size requirements. It is also important to be clear with advisors about what requirements or stipulations for your endowment are in your investment policy statement. For example, your endowment size could limit your pursuit of certain types of investments or require a minimum threshold for certain asset types (such as public equities) in order to attain a minimum level of diversification.

4. **CONDUCT IN-DEPTH CONVERSATIONS WITH THE SHORT LIST.** Once the RFP is sent out to the complete list of identified candidates, narrow it down to the top three or four firms for more in-depth conversations. As with any traditional RFP process, it is important to have detailed discussions about desired risk tolerance, the investment manager's fee structure and costs associated with the firm's services, and level of customer service and reporting. Pay attention to how candid potential advisors are about possible limitations and the extent to which the relationship feels like a partnership. Before selecting an advisor, foundations need to consider how deeply and directly they want to be engaged with their advisors and factor their desired working relationship into their decision.

5. **TREAT THE PROCESS AS A LEARNING OPPORTUNITY.** Reviewing responses to the RFP and having conversations with advisors can be a learning experience for both parties and a good way to get up to speed on best practices and the latest advances in the field.

HOW TO MEANINGFULLY ENGAGE ADVISORS

Not every financial advisor has the experience you need. Here are some strategies for overcoming advisor challenges and for positioning your foundation and your current advisor for success:

- **COMMIT TO LEARN TOGETHER:** Talk to peers and practitioners that are active in the field. Mission Investors Exchange, Confluence Philanthropy, the GIIN, and Toniic are great venues where you can learn about other foundations' approaches, transactions, and best practices.
- **START SMALL:** This work requires patience and commitment. Starting small allows both you and your advisor to build a framework to manage a process that aligns with your goals over the short and long term.
- **SET CLEAR EXPECTATIONS FOR STRATEGY:** Will this work be a distinct part of your existing portfolio? What tasks will your advisor be responsible for (i.e., sourcing, due diligence, and so on)? What other resources do you need to execute your strategy?
- **BRING ON PARTNERS TO COLLABORATE WITH YOUR ADVISOR:** Consider engaging other partners who can support and complement the advisor's work.
- **ASSESS YOUR PROGRESS REGULARLY:** Commit to review what has been working and what may need refinement in this new strategy.

WHAT WILL THIS COST?

As you put an impact investing program into place, you will need to account for the direct and indirect costs of the program. The major considerations are:

- Staff members' time (CEO, finance, development, program, communications, where applicable) for pipeline development, committee management, donor relations, due diligence, monitoring, and reporting
- Legal review
- Investment consultants and other service providers
- Educating and training your internal stakeholders
- Monitoring your portfolio
- Timeline to deploy your capital

INVESTOR PERSPECTIVE

FINDING THE RIGHT FINANCIAL ADVISOR

By PAM FUJITA-YUHAS AND ZOE ROTHCHILD, NW FUND FOR THE ENVIRONMENT

How does a small foundation with limited or no staff embark on the process of finding the right socially responsible investment (SRI) financial advisor? Finding the right blend of SRI approach, service, operational style, and price can be a daunting task, but during our recent search, we started by asking ourselves a few important questions that you may want to consider, too:

- How integral is SRI to your portfolio? Where might you be willing to compromise, and what are your deal breakers?
- How much control do you want to have over the day-to-day decisions related to your account?
- Do you want to do PRIs, actively invest in "good" companies, or simply screen bad actors from the portfolio?
- How much staff or board time are you willing to devote to this on an ongoing basis?
- What services do you need to have? Tax preparation? Custodial? Proxy voting?
- How much do you want to spend?
- Finally, how does the foundation want to prioritize these considerations?

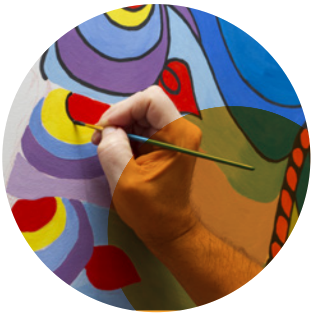
Answering these questions should help you narrow your options. It can also help you develop an RFP that you can send to the advisors you are considering. As you review these questions, you should also look at your investment policy statement (IPS) to see how much it reflects the criteria and values you have identified above. (See Chapter 7 for more on creating an IPS.) The IPS will likely be a part of your RFP and almost all of the advisors we considered used it as a framework to determine if they could meet our needs.

To find potential advisors, it was most helpful to solicit referrals from peers. While some of these may not be a good fit with your size or budget, it is worth having a conversation with them as you may get new leads or learn about services you may wish to incorporate into the RFP. (See our RFP here.) It is also important to note that you may get a referral from a peer who had a good experience with a manager even though the advisor is not an SRI specialist. Depending on the premium your foundation places on SRI expertise and your own comfort level and knowledge of the SRI universe, this may be fine. In fact, in our case the advisor we selected was not an expert himself, but his firm had the resources to meet all of our fundamental needs.

We recommend sending the RFP to five to ten prospects and interviewing about three or four that best meet your criteria. This yielded a pool that offered us a good range of choices without overwhelming our search committee with information. When we got down to checking references on our final two prospects, the best references came from nonprofit clients that were similar in asset size to our foundation.

7. DRAFTING YOUR IMPACT INVESTING POLICY

By MICHAEL LENT, CIO, VERIS WEALTH PARTNERS



An impact investing policy is critical for a foundation to have in place because it clearly articulates its impact investment strategy and guides the finance committee, its investment consultant, and foundation staff on how to identify, evaluate, and screen investments based on that impact investment strategy. The impact investing policy complements the investment policy statement, which guides the entire endowment. In fact, some foundations integrate their impact investing policy into their investment policy statement. Any time an impact investing opportunity arises, the foundation should evaluate it against the parameters and criteria in the impact investing policy statement. The impact investing policy is a living document and should be updated annually, or as needed, to reflect the board's evolving views and new developments in the impact investing field.

Key Elements of the Impact Investing Policy

- Statement of Purpose: Why has the foundation adopted this policy?
- Articulation of the Foundation's Mission Relative to its Investments: This statement lays out the foundation's mission and its intention to use its investments to contribute to achieving its mission
- Specific Mission Areas: Specific criteria being used to identify appropriate investments and specific program goals and priorities

- Impact Strategies
    - Investments that fully integrate impact and sustainability research into their process to achieve a positive impact
    - Avoidance screens to exclude certain investments
    - Shareholder engagement
    - Specific restrictions
- Investment Allocation and Restrictions
    - Asset class preferences
    - Allocation limits
    - Use of PRIs
- Process for Identifying and Evaluating Investments
- Financial and Mission Reporting Requirements
- Board Review Process

How can a small-staffed foundation draft one?

The approach to drafting an impact investing policy depends on several factors and is similar to developing an investment policy statement. If the foundation has an investment consultant who is experienced in impact investing, it is likely that the consultant can assist the foundation in leading the process. If your investment consultant lacks this experience, then a board or staff member should be assigned responsibility for leading the process.

At the beginning of the process it is helpful to have an educational presentation (or several presentations) to the board on impact investing and to review publicly available impact investing policies. Presentations by either peer foundations engaging in impact investing or philanthropic or investment consulting firms can be helpful in clarifying the range of investment possibilities. Networking organizations such as Mission Investors Exchange and industry conferences can also provide resources and information. The board or staff will need to build its own expertise if your investment consultant is not experienced in impact investing or seek an investment consultant who has this knowledge and experience.

It is helpful if the board can review and use a data gathering tool such as an impact investing questionnaire. Websites of networking organizations often provide questionnaires that individual board members or an entire committee can complete. The investment consultant, staff, or assigned board member can review the answers and present the consensus and resultant questions to the designated committee. This group can draft an outline of a policy that can be brought to the board and discussed. The board should then finalize and approve the policy. A sample investment policy statement from the Pohlad Family Foundation can be found on the Mission Investors Exchange website.

INVESTOR SPOTLIGHT

HOW THE CORDES FOUNDATION'S INVESTMENT POLICY STATEMENT REFLECTS ITS INVESTING STYLE

The Cordes Foundation, which focuses on alleviating global poverty and empowering women and girls to fully participate in the development of their communities, was not your typical beginner impact investor, nor is its impact policy statement like many others. "It's a broad document that outlines our fiduciary role and ensures that we are operating consistently internally," says Ron Cordes, co-founder of the foundation. "We have the benefit of not having many stakeholders, so we were able to employ a policy that was flexible enough to allow us to invest immediately and adjust to market forces."

Cordes has dedicated 100 percent of its portfolio to impact. Unlike many foundations that start out investing in traditional debt and equity vehicles, the Cordes Foundation started its impact investing by dedicating 20 percent of its portfolio to direct investments, many of them in microfinance institutions. It then increased it to 30 percent, and today, the foundation invests 40 percent in direct investments, and the rest is in socially responsible or ESG investments, creating a portfolio that is 100 allocated to impact investing. "Investing in microfinance and social enterprises that we believe in can be game changing," says Cordes. Because its investment policy statement does not delineate specific allocations for direct investments, the foundation could increase the percentage of direct transactions according to its comfort level and available opportunities without getting bogged down with revisions.

The foundation also creates synergies between its grant making and its investing, sometimes making a grant to and investment in the same organization. It aims to be catalytic in its grant making, by using that funding to support technical assistance. For example, it has given grants to and invested in the Grassroots Business Fund. While the investment capital went to its social enterprise investment, the foundation's grants went to provide technical assistance to the organizations within the fund, maximizing the foundation's capital.

Having a small number of staff means that the foundation also has limited liquidity requirements, needing capital only to cover administrative costs, grant making, and capital calls from investments it has made. Because of this, the foundation can deploy more patient capital. “We have the benefit of a long-term balance sheet,” says Cordes.

The foundation’s biggest challenge has been dealing with the lack of impact investments in fixed income. “It’s been easier to find equity managers who invest in solid environmental, social, and governance themes,” says Cordes. But for investors who want to maintain a certain debt to equity exposure, there are fewer players.

To begin investing in impact, the foundation suggests considering equity and fixed-income managers in public opportunities that utilize a comprehensive ESG screen. Because an investor is able to take on more risk, it can broaden its asset allocation to include debt and equity investments directly into social enterprises with an aligned mission. The Cordes Foundation has sourced direct transactions through organizations that groom social entrepreneurs such as the Unreasonable Institute, Santa Clara University’s Global Social Benefit Institute, and networks such as Toniic and Aspen Network of Development Entrepreneurs (ANDE). Another catalytic way the foundation suggests entering into impact investing is by pledging to be a guarantor to organizations. For example, MCE Social Capital uses investors’ guarantees to borrow money at a low interest rate that it can then loan to primarily women-focused microfinance banks around the world. Although there is no direct financial return, it is a way to put capital to use for good and an easy way to start impact investing.

8. DECISION-MAKING PROCESSES

By CYNTHIA MULLER, ARABELLA ADVISORS

A clear decision-making and review structure is essential to effective execution of an impact investing policy. Once your policy is in place you are likely to be faced with myriad requests for investments of all sorts. Good governance is critical to the long-term viability of your impact investing as it ensures that the stated goals and policies of the foundation are used in practice.

A standing impact investing committee of the board can be a useful structure for selecting investments, reviewing performance, and suggesting course corrections where necessary. This committee can consist of as few as two people and may:

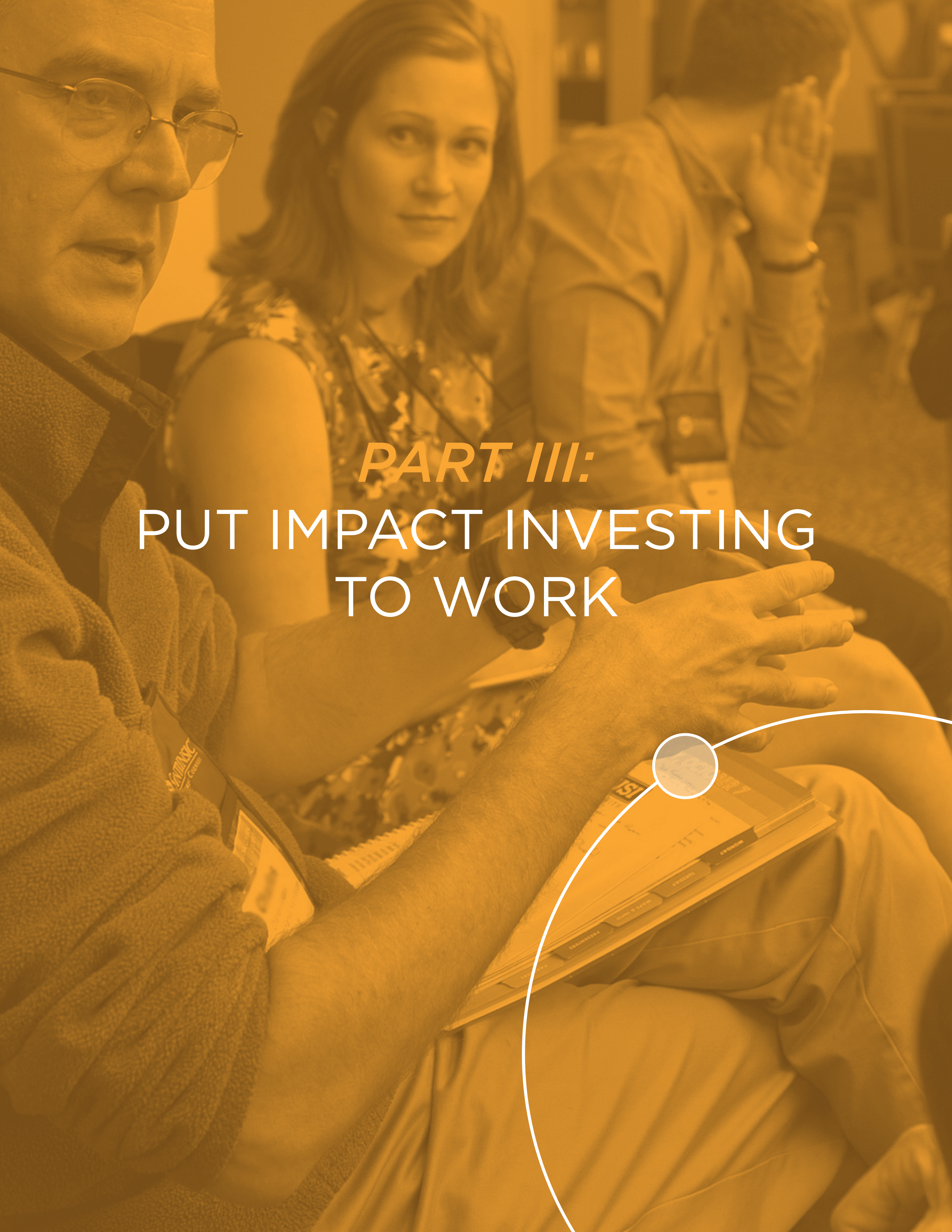
SCREEN POTENTIAL INVESTMENTS: There should be a clear point of access for organizations seeking investment, and an initial screening to determine whether an investment is suitable for further review. This initial review includes, at minimum, fit with mission, goals, and strategy; potential for social return; and preliminary assessment of potential for financial return.

REVIEW POTENTIAL INVESTMENTS: Due diligence on particular investments may be conducted by the committee itself or, in most cases, delegated to or shared with investment advisors, family offices, and consultants. Delegated or not, the foundation will need to have clear policies in place to confirm fit with mission, strategy, and goals; organizational capacity of the investee; investment and creditworthiness of the investee and the specific project; and any other determinants required by your foundation clearly outlined in your impact investing policy and communicated transparently. A common template for reporting on potential impact investments can help institutionalize this review.

PURSUE ONGOING EDUCATION AND TRAINING: Impact investment is a new and evolving field. Foundations are exposed to new trends through affinity groups, trade associations, online resources, service providers, and word of mouth from other practitioners. In addition to conferences and publications, outside experts are available to make board or staff presentations and facilitate conversations with a broader set of community stakeholders.

RESPONSIBILITIES OF IMPACT INVESTMENT COMMITTEES

- Submit potential investments for a vote by the board or have authority delegated by the board to make investment decisions
- Set policies for approval by the board and set standards for managing the investment process
- Monitor financial and social performance of investments
- Make suggestions for developing strategic impact investing program areas (or collaborate with the foundation's grant-making committee to align overall strategy)
- Coordinate with the foundation's investment and finance committees to ensure that impact investing is integrated into your foundation's overall budgeting process
- Create templates for performance review of impact investments that can help institutionalize the evaluation process and facilitate external communication



PART III: PUT IMPACT INVESTING TO WORK

You've laid the groundwork for impact investing, and now it's time to put your plan in action. This section will help you get started.

9. DEAL SOURCING AND FINDING INVESTMENTS

By CYNTHIA MULLER AND CATHERINE TONER, ARABELLA ADVISORS

To successfully invest for impact, you'll need a steady pipeline of investable transactions. Because the field is relatively new, finding investment opportunities that are aligned with a foundation's interests and goals often requires extra effort and effective collaborations with colleagues, partners, and advisors. Foundations active in impact investing point to a number of ways you can find or develop investable opportunities:

CONDUCT A LANDSCAPE SCAN. This will identify fund managers or investments that are aligned with your foundation's investment criteria (investment, program, geographic requirements). Peer funders are especially helpful to speak to when identifying specific investment opportunities within your area of interest. Industry platforms such as ImpactBase, Aeris, ANDE, and ImpactSpace are good resources as well. If you are able to identify specific opportunities through these resources, the next step is to have a conversation to clarify if the fund manager or organization is actively raising funds and the timeline for possible investment.

REVIEW YOUR GRANTEE PORTFOLIO. You can also discover investment opportunities by exploring which of your foundation's grantees may benefit from impact investments. However, it is essential that the grantee organizations have the capacity to manage a loan or equity investment so that a return can be realized. Many grantees will be unfamiliar with investments.

They may have different risk/return expectations, and their investment wishes may not always correspond to the foundation's impact investing protocols. (See below for more about building investee capacity.)

LOOK TO YOUR GRANT MAKING. Grant making can help you generate transactions. You can use grants to analyze and conduct research on an issue area or specific investee needs , as well as to build capacity in nonprofits and social enterprises to help make them investable. Field-building grants that, for instance, generate market data, can help make the local environment more conducive to impact investing.

SEARCH DATABASES AND EXPLORE NETWORKS. Because the field is new, many investors cultivate transactions through word of mouth and referral. CREO, Toniic, and other groups of like-minded investors may be looking for similar opportunities in the same field. Impact investing conferences and convenings are also places where ideas for investments and relationships with intermediaries emerge.

ISSUE REQUESTS FOR PROPOSALS. Some foundations institutionalize the process of finding investments by developing requests for proposals and regular application forms. You can find sample templates such as this one from The California Endowment on the Mission Investors Exchange website.

SEED A NEW INVESTMENT VEHICLE. If there are not enough investable opportunities to accomplish your impact investing goals or you want to help build capacity in a specific geography or issue where none exists, you may consider seeding your own fund. To do this, you would partner with an intermediary or fund manager with the capacity to absorb investment capital and deploy investments into organizations and enterprises that align with your strategy. You can also use a new fund to attract and pool additional capital from like-minded investors. Community development financial institutions (CDFIs) make good partners because they have the existing staff, networks and relationships, and track records. (See below for more on CDFIs.)

INVESTOR SPOTLIGHT

HOW THE HAZEN FOUNDATION SELECTS ITS INVESTMENTS TO CLOSELY MATCH ITS MISSION

For the 90-year-old Edward W. Hazen Foundation, making impact investments was not a question of if, but how. The board was eager to more closely align the foundation's investment portfolio with its mission. With the corpus entirely in screened investments, the board had voted to allocate $1 million, or 5 percent of its total corpus, whichever is less, to test mission investing—but found it challenging to identify transactions that met its criteria.

The foundation works to dismantle structural inequities based on race and class by supporting young people of color with programs focused on education, civic participation, and grassroots organizing. President Lori Bezahler says board members strongly believe that their investments should not only help support the communities the foundation serves but also must not perpetuate the policies, practices, or beliefs that led to structural inequities in the first place. That standard revealed what would become a major hurdle for the foundation: the fundamental challenge of using capital markets to effect social change and end oppression. That's because, according to Bezahler, capital markets have historically sustained or contributed to the very inequities that the foundation seeks to abolish. As a result, board members have ruled out many transactions that may ameliorate specific conditions but that perpetuate the underlying problems.

For example, when the foundation heard about the possibility of creating a student-loan fund for undocumented young people in the country who, because of the deferred action policy for childhood arrivals, are eligible to attend college but unable to access federal student loans, Bezahler thought it sounded promising. "It addresses our target demographic, and paying tuition is absolutely a barrier for these students," says Bezahler. "But a board member pointed out that providing student loans would play into the massive problem of student debt in this country, and our policy is to not reinforce or normalize things that have negative consequences. We knew we set the bar high but we weren't willing to settle."

To help weed out investments that weren't a good fit and refine their vision of the ideal impact investment, board members refer to a detailed set of criteria and ask many questions whenever presented with a new opportunity. In 2014, the foundation finally found the right match and closed its first investment: a five-year, $100,000 loan to South Carolina Community Loan Fund, a CDFI that provides small-business and home-ownership loans. The board members liked the organization's multi-pronged approach in the community: In addition to direct lending and providing finance education to potential borrowers, the CDFI engages in advocacy to influence state-level policies on issues important to the foundation, such as predatory lending practices. "It has a very astute articulation of how policies that were in place led to racial outcomes in their community," Bezahler says.

The foundation found that investment—as well as two other potential transactions that are in the pipeline—thanks to the board and staff's efforts to solicit suggestions from peers. The foundation also uses an investment advisor, but it has found that, throughout the field, there has been greater attention to developing investment opportunities addressing climate and environmental concerns and also job creation or home ownership, but even with those, issues of structural racism have not been a central concern. Addressing racial inequities through mission investments, Bezahler said, will only become easier if there's demand from investors. For now, Hazen is committed to navigating the rewarding, if complex, impact investing landscape.

ON COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

By ROSALIE SHEEHY CATES, THE GIVING PRACTICE

For more than 30 years, community development financial institutions have been putting capital to use in underserved communities. CDFIs build decent housing, finance strong businesses, and help create community facilities. The United States Treasury certifies that a CDFI's primary activity is financing, and that its work benefits low- and moderate-income people and places.

The appeal to foundations is that CDFIs are completely set up to do community lending in sectors that are critical in promoting a healthy and prosperous society (housing, small business, community facilities). CDFIs have the staffing, systems, and diversified sources of funds that are necessary for such work and that most foundations do not want to create. Rather, foundations can turn to CDFIs as intermediaries for community investing. To help your small-staff foundation find, underwrite, and make a CDFI investment, follow these steps:

1. Understand your investing intention

Articulating the foundation's investing intention will help it find the right CDFI. Your foundation may want to achieve one or several of these goals:

- Support small businesses
- Provide affordable housing
- Support redevelopment of buildings and neighborhoods
- Meet the real estate needs of current and future grantees
- Support major job creation in larger businesses
- Improve the mission impact of foundation cash and near-cash assets
- Invest in the foundation's home geography

- Add PRIs to your philanthropy tools
- Become community investors with minimal staff expansion

Use this list to start the conversation with the foundation's board. You can clarify your primary community lending goals, and flesh out both financial and impact expectations for the investment. Having clear intentions will set your foundation up for an investment relationship that best serves its needs.

2. Search for a CDFI to do community lending

If community lending is your foundation's intention, the following organizations can help you find a CDFI that serves the geography you care about. They will also narrow the search to show CDFIs that are lending to small businesses or affordable housing and community facilities:

- Opportunity Finance Network
- US Department of the Treasury

3. Assess the CDFI's financial strength and mission impact

Once the foundation's investing interests are matched with one or more likely CDFIs, it is time for underwriting. One job of underwriting is to assess the CDFI's financial condition and repayment ability. Another job is to assure the foundation that its money will be deployed to people and places that the foundation cares about.

Some foundations have staff that can conduct underwriting, while others hire a consultant for the job. Foundations can also work with peer impact investing foundations that are willing to share their underwriting resources. Whether you do the work yourself or use external resources, the foundation board and staff should understand the underwriting questions and feel confident of the answers.

When CDFI relationships prove fruitful, foundations often recycle their investments by renewing CDFI loans at term. Most CDFIs will initiate a request for the foundation to consider this about 12 months before the principal is due. This gives both parties time to plan for either paying or receiving the funds and to revisit loan terms if necessary.

<table>
<tr><th colspan="6">CDFI Primer for Impact Investors</th></tr>
<tr><th>CDFI type</th><th>For profit?</th><th>Regulated?</th><th>Main activity</th><th>Potential impacts</th><th>Invest with</th></tr>
<tr><td>Bank</td><td>Yes</td><td>Yes</td><td rowspan="2">• Financial services
• Home, business & consumer lending</td><td rowspan="2">• Local investment
• Reaching people who are unbanked and under-banked due to poverty, gender, race, geography</td><td rowspan="2">Cash deposit or CD</td></tr>
<tr><td>Credit Union</td><td>No</td><td>Yes</td></tr>
<tr><td rowspan="3">Loan Fund</td><td rowspan="3">Usually no</td><td rowspan="3">No</td><td>Microloans and small-business financing</td><td>• Local investment
• Job & business creation, sometimes in targeted demographics
• Spillover empowerment and community vitality effects</td><td rowspan="3">Term loan</td></tr>
<tr><td>Affordable housing financing</td><td>• Local investment
• Home ownership for poor people
• Affordable rentals
• Senior or other demographic focus
• Spillover empowerment, health and community vitality effects</td></tr>
<tr><td>Community facility financing</td><td>• Local investment
• Buildings for child care, schools, health centers, recreation, community</td></tr>
<tr><td>Venture Capital Fund</td><td>Yes</td><td>Yes</td><td>Equity financing for growth companies</td><td>• Sometimes local investment
• Job & business creation
• Spillover community vitality effects</td><td>Equity share</td></tr>
</table>

4. Consider a deposit at a CDFI bank or credit union

Some foundations are motivated to move their money from non-mission bank deposits to community development banks and credit unions. These organizations can help you find CDFI banks or credit unions where you can place deposits:

- National Federation of Community Development Credit Unions
- National Community Investment Fund
- CapNexus, which will solicit rate quotes for you
- CDARS, which facilitates large deposits by distributing funds among impact-oriented banks in insurable amounts

HOW TO BUILD CDFI CAPACITY

A Q&A WITH SANDRA MIKUSH AND JENNIFER BARKSDALE, MARY REYNOLDS BABCOCK FOUNDATION

Q: Why do you think it's important to build CDFI capacity?

A: The Mary Reynolds Babcock Foundation's mission is to help move people and places out of poverty across the Southeast. As a small foundation working in a large geographic area, we often work with anchor organizations that are well connected to low-wealth people and communities and provide critical infrastructure for addressing poverty. CDFIs are one such organization, offering access to capital and support for asset building through home ownership and small-business development. CDFIs often play other roles as well, including developing innovative pilot programs, advocating for public policies that support low-wealth families, and building public-private partnerships.

Q: How does the Mary Reynolds Babcock Foundation do this?

A: We support CDFIs through both grants and PRIs, guided by a capacity-building approach. Our investments often start with grant relationships based on our shared vision, and we often use PRIs to help CDFIs move to scale. We mostly make general support grants, based on the belief that long-term, flexible funding is most helpful in increasing the impact and sustainability of organizations, especially smaller CDFIs. We also provide flexible capital through our PRIs, offering general recourse loans that can support the CDFI's entire lending portfolio. By combining grants and PRIs as CDFIs grow, we can help them increase their self-sufficiency and attract capital from more traditional sources, including banks.

Q: Aeris (formerly CARS) provides data, analysis and advisory services that support investment in CDFIs. How have the Aeris tools helped you with your goals?

A: We use Aeris for due diligence when we consider new CDFI investments and to monitor current PRIs. It is much easier to start a relationship with a new CDFI if they are rated by Aeris. For us, Aeris provides a one-stop shop for comprehensive financial reports and impact information, as well as in-depth analysis that is accessible and easy to understand. Their formats are consistent year over year, and they also have peer comparisons. It is hard to look at a CDFI in a silo, so the meaning behind the numbers is more understandable when you can compare across several institutions.

We are now using Aeris to monitor our CDFI partners' quarterly financials, which are all in the same format as the Aeris annual reports. The uniformity of reporting allows us to easily make comparisons across organizations and time and has greatly reduced the work required to look at each CDFI's numbers individually. We have a relatively small staff, so if CDFIs are not rated by Aeris, it takes much more work to get a meaningful analysis of an organization. Without Aeris, we would probably need to outsource due diligence to more consultants, which would be much more expensive.

Q: What can you tell other foundations that are considering an investment in CDFIs?

A: CDFIs are a great way to start your PRI program. They are in the business of lending, so a foundation can help get capital to people and places that need it without taking the risk of direct lending. We learned some hard lessons many years ago when we made direct PRIs, but at the time, we didn't have the staff and board expertise to do that well. We have found that making PRIs through CDFIs is a very effective way to get capital where it needs to go with much less risk. If a CDFI is not yet ready for a loan or PRI, begin with a grant and develop the relationship over time, staying open to when a PRI could help the bank leverage additional capital and increase its scale and impact. PRIs are not beyond the small-staffed foundation, especially with tools like Aeris!

INVESTOR PERSPECTIVE

HOW THE TONY R. WELLS FOUNDATION PREPARES ITS GRANTEES AND PARTNERS TO ACCEPT IMPACT INVESTMENTS

By PATRICK WESTERLUND, TONY R. WELLS FOUNDATION

When the concept of social entrepreneurship first arose, one of the most difficult problems was in finding and obtaining financing to start and grow these new ventures. Today, the idea of a social business is increasingly part of the financial vernacular and there are now too few investment-ready opportunities to satisfy the amount of capital that has been earmarked for these sorts of investments.

One important solution to this problem is for foundations to shift from an “RFP” framework to a more proactive, collaborative, and supportive strategy. By helping to prepare investees for PRI investment, not only are the businesses or nonprofits more likely to get funded, but they will also be better equipped for success. Here is how we have done this.

Step 1: Be approachable, collaborative, creative partners

For years, Tony and his wife, Dana, listed their home phone number on their foundation business cards, reflecting their commitment to being available whenever a community need arose. As the foundation added half a dozen staff, that culture of responsiveness and approachability continued. Despite having limited staff and resources, we have more than 20 meetings each week with community stakeholders, such as nonprofit leaders, board members, social entrepreneurs, and other foundations. We also meet with college students who are looking to make a living and make an impact with their career, with successful businesspeople who are looking to give back but aren’t sure where to start, and with corporations that are trying to build a culture of giving back through new corporate social responsibility programs.

We believe these meetings are an integral part of our mission. It is this direct interaction with people that allows us to take the community’s pulse. This is also how we connect with people who have great ideas who need support in order to grow them. We approach each interaction with an open mind, a positive attitude, and knowledge of the tools in our toolbox.

Step 2: Educate Grantees

Many people engage us in conversation thinking "grants," but we also can make impact investments, share knowledge, direct them to resources, and help make connections. In 2012, the Wells Foundation made the decision to commit 100 percent of its assets to its mission. We liquidated our investments and made those assets available to the community as impact investments. However, for years, nonprofit leaders did not think to approach the foundation for investments, and we were unable to deploy much of the funds.

In the summer of 2013, the foundation hired a team to pinpoint why this was the case and to develop a solution to the problem. The team found that less than 20 percent of Ohio nonprofits had ever thought of a foundation as more than a grant maker. Furthermore, few knew what a PRI was. Only a fraction had ever received an investment from a foundation. The team then determined what knowledge nonprofit leaders needed in order to consider social impact investments as a resource that could help them further their organizations' strategic goals. The team conducted a landscape analysis but could not find a single program that could be adapted to educate local nonprofits on impact investing. Thus, we decided to build what turned into a three-day executive education program on social impact investing.

Since September 2013, the Wells Foundation has run the program every other month and has graduated more than 100 nonprofit leaders, social entrepreneurs, foundation leaders, and others. Our goal has been to provide these leaders with a rich understanding of the industry trends; the technical knowledge needed to navigate legal, tax, and financial aspects of impact investing; and to provide the case studies, tools, and resources that will guide participants after the program's completion.

Another unique element of the program is that it comes with five hours of free consulting time. Graduates have used the time in various ways. We have presented to their boards, and fielded the tough questions that executive directors feel uncomfortable or unprepared to answer. We have participated in strategic planning retreats, helped build financial projections, and provided feedback on business plans and ideas.

The number one request from program graduates has been to find a way for their board members to gain exposure to the program, but in a condensed format. As a result, we built a half-day seminar that covers some of the course's main topics, and we now also offer the seminar to any nonprofit board member who wants to attend. We encourage board members and nonprofit leaders to attend together to align their knowledge.

In addition to these educational offerings, we regularly participate in various webinars, speaking engagements, and other events to share our experiences. Over time, this participation has built us a reputation of being an expert on impact investing in the Central Ohio region.

Step 3: Collaborate with Partners

Cincinnati is a great example of a funder community that has come together to offer a coordinated ecosystem of impact investing. The foundations in that community jointly funded an organization called Flywheel to help build capacity of their grantees. Flywheel uses education, consulting, and other support to build a more robust investment pipeline for the Greater Cincinnati Foundation and others in the region.

Another way to expand your foundation's toolbox is through co-investing. This approach shares investors' risk while giving them a chance to learn from one another's legal agreements and due diligence processes. Investees benefit from the resources and experience of multiple foundations, and may be able to achieve a lower blended interest rate for their project.

The impact of this approach in Columbus, Ohio, has influenced the creation of more than 29 social enterprises and led to dozens of impact investment opportunities, including operational stability, organizational growth, capital improvements, and new earned income activities. With proactive and visionary leadership, foundations of any size or program area can leverage their resources and expertise to help better prepare mission-driven organizations to receive PRIs and use them more efficiently to advance their strategic goals.

10. THE REVIEW PROCESS: DUE DILIGENCE

By CHRISTA VELASQUEZ, UNIVERSITY OF CHICAGO

Due diligence, or underwriting, is used to investigate and evaluate an investment opportunity and help determine the likelihood that the investor will achieve the results he or she seeks. The purpose of the due diligence is to identify and analyze the risks involved in making the investment, verify that the transaction complies with the investment criteria, and provide a basis for the investment decision.

In addition to identifying and analyzing risk, due diligence can provide other benefits, including strengthening the enterprise, facilitating a project or organization's planning and management, deepening the relationship between investor and investee organization, and building a baseline for measuring future success.

Due diligence in impact investing may be more rigorous than due diligence carried out in traditional investment scenarios because investors are conducting both programmatic and financial due diligence. Investees that have gone through the demanding due diligence required by some foundations often are better prepared to succeed with additional investors of any type. The amount of due diligence you conduct will depend on many factors, including prior experiences with the potential investee, the size of the transaction, tolerance for risk, time constraints, cost factors, and resource availability. It is impossible to learn everything about the enterprise, project, or organization you are targeting, but it is important to learn enough to understand the risks involved so you can make an informed investment decision.

Some foundations have dedicated impact investment staff that can undertake this work. They may also use a combination of investment, legal, and program staff and even board members

to analyze and structure potential investments. Foundations without dedicated impact investing staff or that are new to impact investing sometimes hire an outside consultant to conduct due diligence.

Due diligence costs are based on the scope and duration of the effort, which in turn are dependent on the complexity of enterprise, project, or organization, as well as other factors. Costs are typically viewed as an essential expense far outweighed by the anticipated benefits and the downside risks of failing to conduct adequate due diligence. The involved parties determine who will bear the due diligence expense. Typically the foundation investor (or a consortium of investors) covers the costs of due diligence, although the investee will incur additional costs not usually covered by the investor. One advantage of collaboration is the ability to reduce due diligence costs for some or all of the investors.

Due diligence can strengthen the enterprise, facilitate the project's planning and management, deepen the relationship between investor and investee, and build a baseline for measuring future success.

The parties conducting due diligence typically create a checklist of needed financial and programmatic information, including financial statements, business plans, portfolio reports, impact reports, and other documents. Direct contact, through interviews and site visits, also is expected. Finally, additional research is conducted with external sources, including customers, business references, funders, investors, industry experts, and others. The investor uses these materials and external information gathered to conduct both a programmatic and business/financial review.

When conducting due diligence, foundations should consider the following areas of inquiry:

PROGRAM REVIEW. Impact investments are another tool a foundation can use to support an enterprise, project, or organization. As with grants, the programmatic review is the first step in judging any potential investment. The program review should be the same as for a grant, and impact investments are expected to fit within a foundation's programmatic mission. In some cases, foundations may have a particular set of programmatic criteria for impact investments that differ from the grant portfolio.

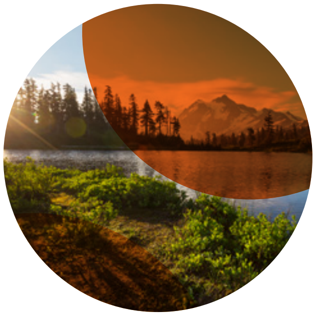
BUSINESS AND FINANCIAL REVIEW. In addition to the program review, a business and financial review must be conducted to determine the financial feasibility and identify key business risks. The business and financial due diligence is a rigorous process and examines the financial strength of the enterprise, project or organization, management strength, operations, and external market conditions.

Some foundations may divide the business and financial review into two parts: a preliminary financial review to ensure that the enterprise, project, or organization meets basic financial strength criteria, and an in-depth review.

One way to think about effective due diligence is to build systems and develop tools that institutionalize the process. This makes comparisons between investments clear. A number of due diligence checklists, loan documents, and other templates from active impact investing foundations are available for members on the Mission Investors Exchange website that can facilitate the development of a due diligence process. You will probably wish to consult an attorney to provide any final legal documentation.

11. STRUCTURING INVESTMENTS

By CYNTHIA MULLER, ARABELLA ADVISORS



It is important for small foundations to structure their investments effectively. Doing so can help to mitigate risk in their portfolios, while supporting the growth and long-term success of the investee. Foundations can establish covenants—financial or impact conditions—in investment agreements that require investees to do or avoid doing certain things. Covenants can be used to incentivize investee performance and prohibit activities that may jeopardize the foundation's investment. If the investee is out of compliance with any covenant during the investment term, the foundation can recover its investment or, more commonly, work with investees to come up with a solution to the problem or explore options to restructure the investment to ensure investee success. (See more in Chapter 13 about how to avoid investment challenges.)

When developing an investment agreement, it is important to communicate with the investee to understand what covenants are reasonable and to ensure that any requirements or restrictions will support their growth and operations. Similarly, if a foundation is co-investing, it can play an important role in coordinating with other foundations or organizations to establish requirements that reinforce existing covenants and reduce unnecessary burdens on the investee.

While foundations can include covenants in most investments, high-touch structuring and detailed covenants are more common in higher-risk private equity investments. Investment agreements may include the following:

- Require a loss reserve
- Capitalization or other fund-raising targets

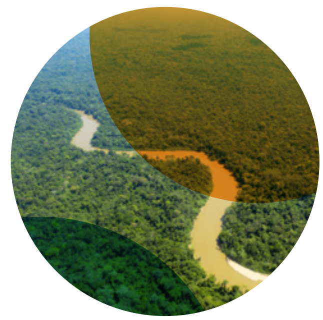
- Maintenance of key financial ratios and overall portfolio quality
- Capital deployment deadlines or requirements
- Notification of material changes (staffing, structure, and so on) to the fund or organization
- Regular social impact reporting, including specific metrics

In order to execute investments effectively, foundation board members and staff need to build the capacity required to structure investments. Foundations may build this capacity internally or outsource investment sourcing, structuring, or execution to an advisor or consultant.

12. IMPACT MEASURES AND MONITORING TOOLS

By CHRISTA VELASQUEZ, UNIVERSITY OF CHICAGO

So much time and effort is focused on getting an impact investment closed and the funds disbursed. However, executing an agreement isn't the finish line and, in fact, it may not even be the halfway point. Post-closing, there is still a lot of work to do in monitoring the performance of an investment to ensure financial health and intended impact.



Monitoring the performance of your investments ensures alignment with your foundation's objectives, communicates expected and achieved impacts, ensures consistency among reported data, allows for performance measurement over time, and helps to identify the right questions for investors to ask. Unlike traditional investors that measure only their financial returns, impact investors track both the financial and social impact performance of their investments.

Who monitors investments varies by foundation. Some foundations have impact investing staff and other foundation stakeholders who are responsible for all aspects of investing, including monitoring. Other foundations may have finance and investment teams to monitor the portfolio. Still others utilize a team of program, finance, and investment staff. Another option that some foundations use is to engage external service providers such as an advisor, consultant, or a financial intermediary who has experience monitoring and servicing investments.

Measuring Financial Impact

Assessing the financial performance of an investment is relatively straightforward and focuses on such measures as profit, cash flow, and balance sheet strength. Investors may track financial ratios including those that measure net assets, liquidity, and asset quality.

Investment terms may include covenants or financial and programmatic performance conditions in an investment agreement. These agreements require or prohibit the borrower or investee from doing certain things. Covenants typically cover financial targets or allowable uses of the investment proceeds. Part of monitoring will therefore be determining compliance with those covenants. The frequency and interval of monitoring of each covenant is clearly defined in the investment agreement (although most covenants are monitored quarterly or annually throughout the term of the investment).

Measuring Social Impact

Measuring social impact is more difficult. As with grants, foundations struggle to assess the social impact of an impact investment. Investors typically include in the investment agreement key programmatic or social indicators—a core set of metrics customized for individual transactions—that investees must regularly report on. Examples of key indicators include jobs created, affordable housing units financed, numbers of individuals accessing financial services, levels of energy conservation achieved, or number of child care slots financed. Interestingly, some foundation investors believe that they get better impact data from the impact investments than their grants because of the clear metrics and regular, ongoing reporting.

Much work has been done recently to standardize impact measures to ease reporting burdens on investees, promote transparency, and aid investors. Impact Reporting and Investment Standards (IRIS), a program of the Global Impact Investing Network, is a catalog of standardized definitions for performance measures by sector that can be used to understand an organization's social results and make it easier to compare performance across an investment portfolio or industry.

While IRIS is one metrics system, other organizations have developed their own metrics that may be applicable to foundation impact investments:

- CDFI Assessment and Ratings System (Aeris, formerly CARS)
- Small and growing business metrics from the ANDE
- Sustainable agriculture metrics from the Finance Alliance for Sustainable Trade (FAST)

- Developed and emerging market metrics from the Global Impact Investing Rating System assessment
- Land conservation metrics developed by an IRIS working group
- Microfinance metrics from the Microfinance Information Exchange and Social Performance Task Force
- Community banking metrics from National Community Investment Fund
- Metrics for investments in early-stage enterprises from Toniic
- Compilation of other metrics from the Global Impact Investing Network

How to Monitor

Investment agreements should lay out the specific financial and impact metrics and frequency of reporting. Investments should be monitored at least annually with a review of both programmatic and financial issues. The key programmatic concern is whether the investee is conducting the promised activity and reaching the target population. Financial monitoring should focus on the financial performance of the investee or the project or both, with emphasis on the investee's likely ability to repay the investment.

The level of risk of the investments in a foundation's portfolio should be regularly assessed. Foundations use a risk rating system to evaluate the risk of default by an investee and to identify investments with heightened risk parameters that may require more frequent monitoring or some kind of intervention. Foundations can also use an investment's risk rating to establish the level of loss reserve to be held for the investment.

13. AVOIDING AND TROUBLESHOOTING INVESTMENT CHALLENGES

By JENNIFER PRYCE, CALVERT FOUNDATION

In the real world, there are no guarantees that every impact investment will succeed. But the typically high level of due diligence carried out by foundations doing this work, and their often deep familiarity with investees, have led to reported rates of success (measured in terms of both financial and social returns) that are generally quite high. Foundations are much more likely to have success if they take steps to mitigate risk before an investment is made and after it is in place.

How to Avoid Challenges

The two most important measures to prevent losses are due diligence prior to the investment and active monitoring by the investor once the transaction has been closed. In addition, developing a clear statement of expectations in the investment agreement and a strong relationship with the investee are ways to mitigate challenges over the life of the investment.

It is important for your foundation to put in place measures to avoid surprises and make decisions up front about how you will handle investments in default. Some considerations you should take into account include:

SECURITY: Consider whether or not your foundation should file a security interest in personal property or a deed of trust for real property, such as land or buildings. If your foundation asks for security, it is important to communicate why to the investee.

EFFECTS OF LOSSES ON THE PROGRAM: Any losses would reduce the overall allocation or budget (if the program is self-sustaining and needs repayments to make new investments). In order to avoid losses or defaults that could also cause senior leadership or trustees to doubt the strategy or program management, it should be made clear to investees up front that they are expected to update foundation program and investment staff on an ongoing basis. Investment documents can include covenants that require reporting on significant changes in management or the business, as well as ongoing financial reporting. With proactive measures in place, the investor and the investee can work together to fix the problem, the foundation staff and leadership aren't taken by surprise, and any potential losses are more likely to be alleviated.

REMEDIAL INTERVENTIONS: It is important to decide up front if in the case of default the foundation is willing to perform a "workout" (an alternation of the investment's terms or structure to ensure the investee is able to achieve its intended goals and resulting impact). Consider the reputational risk of calling a default on a loan and decide beforehand how you would work through the issues regarding a loan in default. Many foundations decide that they will remediate a loan in order to avoid calling a default, but are clear with investees that a default could affect the investor-investee/grantor-grantee relationship.

ACCOUNTING: As a part of internal pre-investment discussions, your foundation—including any program staff, finance staff, trustees—should decide how the investment should be accounted for as a part of its internal processes. In the case of PRI loans, will the foundation account for the loan within the program budget or investment portfolio? If a loan is in default, will it be expensed and accounted for as a grant within the foundation's grant program budget or an investment? If it is accounted for as an investment, then it is a loss and should be treated as such within the foundation's portfolio.

How to Troubleshoot when Challenges Arise

If problems do arise during the investment term, and if an investee is unable to meet its financial commitment or other covenants, foundations can play a critical role in performing a workout. In most cases, the foundation can work with the investee to make changes to the investment agreement. This may include extending the investment period, reducing the investment amount, converting the investment into a grant, or providing additional grant support to help the investee get back on track.

A workout can be a fluid process and will depend heavily on the information available from the investee. If your foundation does not have the capacity to negotiate a workout or if there are sensitive relationships or perspectives involved internally or externally, consider hiring an advisor or other support that have experience working on default investments.

Here are a few considerations when performing a workout:

- **HOW PATIENT/FLEXIBLE CAN YOU BE TO EXTEND/MODIFY INVESTMENT TERMS?** If the investee has demonstrated an ability to repay the investment, consider extending the investment term to allow the investee to be successful. If the investment is a PRI or other concessionary capital, foundations are more likely to work with investees to restructure investments.

- **ARE YOU WILLING AND ABLE TO WRITE IT OFF AS A GRANT OR TAKE THE LOSS?** At the outset, understanding the foundation's ability to take a loss or write off an investment as a grant is very important. Having this flexibility at the outset will enable you to manage expectations internally for investments that are not recoverable.

- **HOW FAR WILL YOU GO TO COLLECT ON THE COLLATERAL IF THERE IS ANY?** This will vary from foundation to foundation and will depend heavily on the type of term or structure violation. For example, a foundation may be more likely to collect on collateral if the investee engaged in illegal activity in violating the investment terms.

- **WHAT ADDITIONAL RESOURCES COULD YOU BRING TO THE TABLE IF THINGS ARE LOOKING BAD?** Foundations can play a crucial role in providing additional resources to the investee. They can act as a broker to communicate with peer investors to collectively change terms of investments to ensure the intervention aligns across all investment capital. Foundations can also provide additional capital or grant funding to help the investee address any operations challenges.

Not every investment will be successful. Nor will every grant. But with careful preparation and a commitment to working together, your foundation can minimize losses and, at the very least, learn important lessons.

PART IV: CASE EXAMPLES

The case examples that follow represent a variety of asset classes, sectors, and financial return goals, and illustrate the many ways small-staffed foundations are using investments to achieve their philanthropic goals. Find even more examples in the Mission Investors Exchange database.

Impact Sector Legend

- Agriculture & Food
- Community & Economic Development
- Energy
- Environmental Conservation & Protection
- Human & Social Services
- Employment & Job Related
- Housing
- Arts Culture & Humanities
- Education
- Health Care
- Financial Services
- Microfinance
- Water and Sanitation
- Information/ Communications Technologies
- Below Market Rate
- Market Rate

Investor	Investee	Impact Sector	Page
Mary Reynolds Babcock Foundation	Natural Capital Investment Fund		90
Blue Moon Fund Inc.	Mountain Hazelnuts Group		93
Boone Family Foundation	Nelson Capital Large Cap Equity		95
Cedar Tree Foundation	New Alternatives Fund		98
Cedar Tree Foundation	Maine Farmland Trust		102
Chino Cienega Foundation	Friends of Palm Springs Mountains		105
Dakota Foundation	SJF Ventures		108
O. P. and W. E. Edwards Foundation	Mountain Springs Villa		110
The Betsy and Jesse Fink Foundation	Wholesome Wave Foundation Charitable Ventures Inc., Healthy Food Commerce Investments Program		112

Investor	Investee	Impact Sector	Page
Max M. and Marjorie S. Fisher Foundation	P3 Enterprise (Artesian Farms)		114
High Stakes Foundation	NeighborWorks Montana		116
HRK Foundation	Minnesota Historical Society		118
IDP Foundation Inc.	Sinapi Aba Trust (IDP Rising Schools Program)		120
The Lora L. & Martin N. Kelley Family Foundation Trust	Ecotrust Forest Fund II, LLC		123
Harris and Eliza Kempner Fund and the Moody Methodist Permanent Endowment Fund	Ten social agencies receiving social services block grant funds		126
Laughing Gull Foundation	Self-Help Credit Union		129
Carl & Eloise Pohlad Family Foundation	Northside Home, LLC		132
The Roosa Fund of Block Island Ecumenical Ministries Inc.	Block Island Economic Development Foundation Inc. (CMOs)		135
Swift Foundation	RSF Food & Agriculture PRI Fund		137
Triple EEE Foundation	Various Investment-Grade Collateralized Mortgage Obligations		140
Tony R. Wells Foundation	Citra		142

MARY REYNOLDS BABCOCK FOUNDATION, WINSTON-SALEM, NC

INVESTMENT SUMMARY

Investee:	Natural Capital Investment Fund
Asset Class:	Public Debt—Senior General Recourse Loan
Investment Amount:	$500,000
Impact Sector(s):	Agriculture & Food; Community & Economic Development; Energy
Date of Investment:	2008 ($200,000) and 2010 ($300,000)
Projected Exit:	Principal due in 2018 and 2020
Financial Return Goal:	Below Market Rate

The mission of the Mary Reynolds Babcock Foundation (MRBF) is to help people and places to move out of poverty and achieve greater social and economic justice. CDFIs can be important anchor institutions in low-wealth communities, providing access to capital and technical assistance for asset development. The Natural Capital Investment Fund (NCIF) is such an organization. The foundation's relationship with NCIF started with an unsuccessful PRI proposal, which led to grants for general operations and organizational development, including strategic planning for geographic expansion. A capital grant in 2007 helped leverage additional loan capital from banks and other sources. After NCIF built a sufficient loan fund, MRBF made a PRI to help NCIF further expand its loan portfolio and increase its self-sufficiency, a goal shared by both organizations. Investing with trusted CDFIs that are committed to MRBF's ideals is an efficient way to advance its mission.

MARY REYNOLDS BABCOCK FOUNDATION, WINSTON-SALEM, NC *continued*

This PRI helped expand NCIF's revolving loan fund to invest in start-up to expansion-stage companies in key sectors (value-added agriculture, sustainable forestry, recycling, water conservation, renewable energy, eco- and heritage tourism, and natural medicines). NCIF's business lending supports MRBF's overall goals around asset development and job creation.

PROCESS: With limited staff, MRBF relies on Aeris tools (formerly CARS) for due diligence. MRBF encouraged NCIF to become CARS-rated, which also helped it attract additional institutional investors. MRBF learned through this process to be cautious and generous at the same time, negotiating a below-market rate of 2 percent to increase self-sufficiency, but keeping the foundation's investment to no more than 10 percent of the CDFI's total assets under management.

PARTNERS INVOLVED IN INVESTMENT: MRBF initially considered a PRI much earlier in NCIF's development, engaging an experienced PRI maker in the due diligence with the hope of co-investing. When the other foundation had concerns about NCIF's capacity for a PRI, MRBF chose to make a series of annual operating grants to help NCIF develop its capacity and expand its geographic footprint.

FINANCIAL AND SOCIAL IMPACT: Since MRBF's relationship with NCIF began, NCIF has grown from a $100,000 revolving loan fund with a 26-county service area to a $15 million CDFI operating across eight states. MRBF has realized the expected 2 percent financial return while seeing NCIF's self-sufficiency improve. NCIF's clients, located mostly in rural communities, are small and emerging natural resource-based businesses that advance sustainable economic development and have a positive impact on human health and the natural environment in their community. In the PRI's first five years, NCIF made 72 loans totaling $9.9 million, leveraging $43 million in other financing, and creating or retaining 1,970 jobs. NCIF also led collaborative initiatives that attracted federal dollars for local food value chains, renewable energy, and other innovative approaches.

ON-THE-GROUND INSIGHTS:

Sometimes you may have to build capacity before investing. Although NCIF was not ready for a PRI when it first approached MRBF, the foundation was able to strategically use grants for operations, strategic planning, and equity to help NCIF grow and become PRI-ready.

MARY REYNOLDS BABCOCK FOUNDATION, WINSTON-SALEM, NC *continued*

Aim for sustainability, not self-sufficiency. While self-sufficiency may be unrealistic for mission-driven CDFIs, they can achieve sustainability by balancing a focus on mission, organization capacity, and capitalization to increase impact over time.

LINKS

Mary Reynolds Babcock Foundation

Natural Capital Investment Fund

Aeris

Read more about this case example on Mission Investors Exchange's website.

BLUE MOON FUND INC., CHARLOTTESVILLE, VA

INVESTMENT SUMMARY

Investee:	Mountain Hazelnuts Group
Asset Class:	Private Equity
Investment Amount:	$2.1 million
Impact Sector(s):	Agriculture & Food; Community & Economic Development; Environmental Conservation & Preservation
Date of Investment:	2011
Projected Exit:	N/A
Financial Return Goal:	Market Rate

Blue Moon Fund Inc. is a private foundation that works to build human and natural resilience to a changing and warming world. It works in select regions in Asia, North America, and the Tropical Americas to conserve and preserve biodiversity and critical habitat as well as to prevent and adapt to climate change. Through a combination of grant making, PRIs, and investing its endowment, Blue Moon's program staff and investment team work together to deploy capital in the highest- and best-use situations to achieve its mission. Blue Moon Fund's endowment is entirely mission-driven. All of its investment managers and direct holdings have an investment philosophy, research process, or business strategy that is consistent with the foundation's philanthropic goals.

In partnership with Bhutan's Ministry of Agriculture and Forests, Mountain Hazelnuts Group is one of the largest foreign direct-investment projects and the largest private-sector employer in Bhutan. In the past two years, it has planted over three million hazelnut saplings in new orchards, involving more than 6,000 Bhutanese households. Over the life of the project, it

BLUE MOON FUND INC., CHARLOTTESVILLE, VA *continued*

will plant ten million hazelnut trees exclusively on degraded or fallow land, stabilizing eroding mountain soils, sequestering an estimated 1.5 million additional tons of carbon dioxide equivalents and connecting remote villages to well-paying international markets.

PROCESS: As with all its private capital investments, Blue Moon Fund's internal investment and program teams worked together to evaluate the investment merits and mission impact of an investment in Mountain Hazelnuts Group.

PARTNERS INVOLVED IN INVESTMENT: Mountain Hazelnuts Group's founders and multiple impact investment-focused co-investors from the United States, Europe, and Asia

PROJECTED IMPACT: Mountain Hazelnuts Group is expected to more than double the income of participating farmer households, affecting up to 15 percent of the population of Bhutan. Together with Bhutan's Ministry of Agriculture and Forests, Mountain Hazelnuts Group provides farmer training and outreach, supports development of local cooperatives and provides transportation to international markets. Human capacity building combined with significantly higher household income increases the attractiveness of farming for young Bhutanese workers, slowing migration to urban centers and keeping families geographically intact.

ON-THE-GROUND INSIGHTS: Be clear on your foundation's impact goals and risk tolerance.

Focus the foundation's efforts and capital on experienced entrepreneurs and operators.

LINKS

Blue Moon Fund Inc.

Mountain Hazelnuts Group

Article: Big Business in Bhutan: How the Humble Hazelnut Could Help Bhutan

Read more about this case example on Mission Investors Exchange's website.

BOONE FAMILY FOUNDATION, DALLAS, TX

INVESTMENT SUMMARY

Investee:	Nelson Capital Large Cap Equity
Asset Class:	Public Equity—Customized Fund
Investment Amount:	$6 million
Impact Sector(s):	Community & Economic Development; Human & Social Services
Date of Investment:	2012
Projected Exit:	N/A
Financial Return Goal:	Market rate

The Boone Family Foundation was established in 2007. It promotes gender equity, better quality of life for children, and environmental stewardship, predominantly in Texas. The foundation has one full-time and one part-time staff member, as well as support from two investment professionals who work full time for the family office. It works with a fully balanced portfolio consisting of equity, bonds, hedge funds, and real estate. When the foundation was in its formative stages, it became inspired by the Annie E. Casey Foundation's challenge to foundations to invest more endowment dollars for their mission. Currently, the Boone Family Foundation has approximately 9 percent of its endowment committed to impact investments. It is committed to growing this share to 12 percent in the near term.

The Boone Family Foundation was seeking potential public equity investments for its portfolio when it was introduced to Wells Fargo-owned Nelson Capital, a third-party investment manager focused on socially responsible investment strategies. Nelson Capital created a custom portfolio for the Boone Family Foundation using mutually agreed-upon ESG screening

BOONE FAMILY FOUNDATION, DALLAS, TX *continued*

criteria and broad-based macro trends to invest only in publicly traded companies that behave in ways that are consistent with two of the foundation's focus areas: advancing gender equity and improving the quality of life for children. Examples of screening criteria include: the company being ranked among Fortune's "100 Best Companies to Work For," the number of women serving on its board, the number of women at the company who are in leadership positions, its level of participation in philanthropic activities, its health-care packages, the extent to which company practices are conducive for women with children, the presence of on-site child-care facilities, and the company's role in supporting primary and secondary education.

PROCESS: The Boone Family Foundation and Nelson Capital collectively determined the screening criteria. Nelson Capital is responsible for implementing the portfolio, in addition to maintaining the agreed-upon screening guidelines. The foundation monitors and reviews the investment, and it receives monthly performance updates from Nelson Capital.

PARTNERS INVOLVED IN INVESTMENT: Nelson Capital

FINANCIAL AND SOCIAL IMPACT: This investment has earned a 15.87 percent net return since its inception. The foundation has been able to invest in large-cap companies that take actions to support gender equity and improve the quality of life for children while achieving market-rate returns.

ON-THE-GROUND INSIGHTS:

When possible, leverage the family office's financial and legal resources: Foundation staff members felt fortunate to have the family office's financial and legal expertise as they began to research MRIs, many of which had structures different from the types of investments they were accustomed to. Handling the due diligence requirements and reviewing contracts and terms amounted to significant time commitments and would have been much more costly had the foundation not had the support and technical expertise provided by members of the family office.

Use investment managers as an entry point: Partnering with investment managers is a good way to begin investing for impact. You can ask potential advisors to show how they would integrate the focus areas of the foundation in the investments they make to ensure they will tailor their approach to meet your foundation's goals.

BOONE FAMILY FOUNDATION, DALLAS, TX *continued*

"YOU CAN INVEST IN A WAY THAT ALIGNS WITH THE VALUES OF YOUR FOUNDATION WITHOUT SACRIFICING MARKET RETURN. A LOT OF TIMES THE PUSHBACK YOU HEAR IS IF WE DON'T MAKE RETURNS THEN WE CAN'T MAKE GRANTS, BUT IN THIS WAY YOU ARE NOT SACRIFICING ONE FOR THE OTHER. "

—CYNTHIA YUNG, *Executive Director*

LINKS

The Boone Family Foundation

Nelson Capital Management

Read more about this case example on Mission Investors Exchange's website.

CEDAR TREE FOUNDATION, BOSTON, MA

INVESTMENT SUMMARY

Investee:	New Alternatives Fund
Asset Class:	Public Equity
Investment Amount:	$2 million
Impact Sector(s):	Energy; Environmental Conservation & Preservation
Date of Investment:	2010
Projected Exit:	N/A
Financial Return Goal:	Market Rate

Cedar Tree Foundation focuses its grant-making efforts on sustainable agriculture and environmental health and education across the United States, and it wanted to achieve greater synergy between its endowment investments and the grant dollars it deployed. In 2005, through a board-driven process, the foundation's treasurer created an impact investing policy that included a rating system for potential investments on spectrum of "greenness"' with the ultimate goal to have 80 to 90 percent of all investments in some shade of green. (See Figure 1.) The foundation is run by four staff members and governed by six board members who oversee $98 million in assets. The full board approved the proposed policy and supported the creation of a detailed RFP sent out to a number of investment advisors with expertise in impact investing for small-staffed foundations. The foundation ultimately hired the socially responsible investing team at RBC Wealth Management. Cedar Tree benefited from organization-wide enthusiasm and support for a mission-driven investment approach, noting that the foundation "has been of one mind" with strong advocates on the part of both the board and staff.

Figure 1: Spectrum of "Greenness"

Category	Explanation
No Green	Manager is not screened and does not incorporate environmental, social, and governance (ESG) criteria.
Light Green	Manager is screened to include only best environmental performers by sector, and exclude nuclear, tobacco, and weapons.
Medium Green	In addition to screens above, the manager is taking into account some environmental considerations when making investment decisions.
Dark Green	Manager actively seeks leadership with ESG criteria and may use ownership rights to influence corporate boards, or manager is actively investing in companies that provide environmental solutions or sustainable management of natural resources.

Cedar Tree Foundation made a $2 million investment in the New Alternatives Fund in 2010 with no set termination date. The fund is a socially responsible mutual fund that focuses on investments in alternative energy and the environment through a long-term investment approach. As such, it represented a welcome opportunity for the foundation to diversify its portfolio with a public equities investment and to serve the foundation's social mission. Founded in 1982, the New Alternatives Fund is the first US environmentally focused mutual fund and the first fund that concentrates significantly on alternative energy. Because the New Alternatives Fund offered market-rate returns, the foundation made the investment directly from its endowment, which adheres to the foundation's investment requirements. Through its investment in the New Alternatives Fund, Cedar Tree Foundation is at once receiving a risk-adjusted market-rate return on a public equities fund and supporting companies taking conservation-minded energy approaches.

CEDAR TREE FOUNDATION, BOSTON, MA *continued*

PROCESS: As New Alternatives Fund is publicly traded (ticker NALFX), the foundation conducted due diligence primarily by examining the prospectus and investor materials.

PARTNERS INVOLVED IN INVESTMENT: None

PROJECTED IMPACT: The investment funds companies that produce and conserve energy in a manner that reduces pollution and harm to the environment, particularly when compared to conventional coal, oil, or nuclear energy. New Alternatives Fund beat its benchmark, the Standard & Poor's Global Alternative Energy Index, in 2010–2012, and fell slightly below benchmark in 2013:

Financial Performance	2013	2012	2011	2010
New Alternatives Fund	30.2%	3.2%	-7.7%	-7.3%
S&P Global Alternative Energy Index	33.7%	-5.8%	-32.9%	-11.3%

Cedar Tree Foundation's investment policy specifically calls for investments in global alternative energy equities as an individual asset class. Returns were 3.2 percent in 2012 when the sector at large was returning -5.8 percent.

ON-THE-GROUND INSIGHTS:

Find investments that make real impact. Cedar Tree Foundation is committed to finding "dark green investments" and continues to spend time and due diligence researching suitable investment opportunities with mission fit and social impact. While screening out egregious companies in a traditional portfolio is an important tool, finding the ones that are making positive contributions to mission achieves a much greater degree of impact.

Know what your metrics mean. While Cedar Tree has 90 percent of its endowment invested in its "green scale," it continues to face challenges in how to precisely measure the social impact of all the investments on the scale.

"IMPACT INVESTING WAS PRESENTED TO THE BOARD AS COMMON SENSE. HOW CAN WE BE A FOUNDATION THAT IS FUNDING ENVIRONMENTAL HEALTH WHILE AT THE SAME TIME INVESTING IN COMPANIES THAT ARE ENVIRONMENTAL POLLUTERS?"

—DEBRA MONIZ, *Director of Administration and Finance*

CEDAR TREE FOUNDATION, BOSTON, MA *continued*

LINKS

Cedar Tree Foundation

New Alternatives Fund

New Alternatives Fund list of investments, shareholder letters, and financial reports

S&P Global Alternative Energy Index (Ticker SPGTAE)

Read more about this case example on Mission Investors Exchange's website.

CEDAR TREE FOUNDATION, BOSTON, MA

INVESTMENT SUMMARY

Investee:	Maine Farmland Trust (MFT)
Asset Class:	Private Debt
Investment Amount:	$500,000
Impact Sector(s):	Agriculture & Food; Community & Economic Development; Environmental Conservation & Protection
Date of Investment:	2013
Projected Exit:	2016
Financial Return Goal:	Below Market Rate

Cedar Tree Foundation focuses its grant-making efforts on sustainable agriculture and environmental health and education across the United States, and it wanted to achieve greater synergy between its endowment investments and the grant dollars it deployed. In 2005, through a board-driven process, the foundation's treasurer created an impact investing policy that included a rating system for potential investments on spectrum of "greenness"' with the ultimate goal to have 80 to 90 percent of all investments in some shade of green. (See Figure 1.) The foundation is run by four staff members and governed by six board members who oversee $98 million in assets. The full board approved the proposed policy and supported the creation of a detailed RFP sent out to a number of investment advisors with expertise in impact investing for small-staffed foundations. The foundation ultimately hired the socially responsible investing team at RBC Wealth Management. Cedar Tree benefited from organization-wide enthusiasm and support for a mission-driven investment approach, noting that the foundation "has been of one mind" with strong advocates on the part of both the board and staff.

CEDAR TREE FOUNDATION, BOSTON, MA *continued*

Figure 1: Spectrum of "Greenness"

Category	Explanation
No Green	Manager is not screened and does not incorporate environmental, social, and governance (ESG) criteria.
Light Green	Manager is screened to include only best environmental performers by sector, and exclude nuclear, tobacco, and weapons.
Medium Green	In addition to screens above, the manager is taking into account some environmental considerations when making investment decisions.
Dark Green	Manager actively seeks leadership with ESG criteria and may use ownership rights to influence corporate boards, or manager is actively investing in companies that provide environmental solutions or sustainable management of natural resources.

This PRI investment funds MFT's Buy/Protect/Sell program, through which MFT purchases vulnerable farmland, permanently protects the land with agricultural restrictions or easements, and then resells it to farmers at the land's affordable "farmland value" rather than its pre-easement "development value."

PROCESS: The MFT investment was Cedar Tree's first PRI investment and first time entering into a debt contract. The foundation had a lawyer review the contract, to ensure that the arrangement met the IRS definition of a PRI and that it was drafted with adequate legal protection. The foundation was at the same time cognizant to avoid putting unreasonable demands on MFT since it is a small organization with limited resources.

PARTNERS INVOLVED IN INVESTMENT: None

CEDAR TREE FOUNDATION, BOSTON, MA *continued*

PROJECTED IMPACT: This PRI investment earns the foundation 2 percent interest. Adding to MFT's loan fund gives the nonprofit more resources to deploy at a lower cost of financing, allowing it to protect additional farmland and support new farmers.

ADDITIONAL INSIGHTS:

Be open to a range of investment opportunities. Developing an impact investing strategy with a set investment structure in mind can lead to a frustrating search, as it is not always possible to find an investment in each asset class that meets specific social and financial impact goals. While knowing what you want to get out of an investment is important, being flexible and adaptive with your impact investing program is key. Cedar Tree is keenly interested in investment opportunities that further its grant-making mission in measurable, impactful ways.

Network with like-minded funders. In the future, the foundation plans to more actively reach out to and network with other funders with similar interests in sustainable agriculture in the hopes of more quickly discovering future investment opportunities that are mission-aligned.

"IT WAS SUCH AN EASY PRI TO START OUR IMPACT INVESTING WITH BECAUSE IT WAS A 100 PERCENT BULL'S-EYE IN OUR GOAL OF INCREASING LAND ACCESS FOR SUSTAINABLE FARMERS. WE ASKED IF WE COULD RESTRICT THE FUNDS THAT WE PUT INTO THE BUY/PROTECT/SELL PROGRAM SPECIFICALLY FOR FARMERS WHO WERE PLANNING TO FARM ORGANICALLY, AND MFT WAS ABLE TO DO THAT."

—DEBRA MONIZ, *Director of Administration and Finance*

LINKS

Cedar Tree Foundation

Maine Farmland Trust

Maine Farmland Trust's Buy/Protect/Sell Program

Article: Cedar Tree Foundation Makes its First PRI Loan in Maine Farmland Trust to Preserve Maine Farms

Read more about this case example on Mission Investors Exchange's website.

CHINO CIENEGA FOUNDATION, PALM SPRINGS, CA

INVESTMENT SUMMARY

Investee:	Friends of Palm Springs Mountains
Asset Class:	Private Debt
Investment Amount:	$350,000
Impact Sector(s):	Environmental Conservation & Preservation
Date of Investment:	2014
Projected Exit:	2015
Financial Return Goal:	Below Market Rate

The Chino Cienega Foundation, based in Palm Springs, California, focuses on international grant making. However, its name derives from a deep appreciation of the local geography in the area where the founding family settled almost four generations ago. In 2014, the Friends of Palm Springs Mountains (FPSM) approached Stephen C. Nichols, the foundation's president and founder, to provide funds for its efforts to conserve undeveloped land in the Chino Canyon area of Palm Springs. The organization wanted to purchase the land from a developer who was willing to sell rather than pursue development plans that had languished during the recent recession. After purchase, the land would be preserved in perpetuity and managed both to protect natural wildlife habitat and to provide public access through an interpretive trail system with informative signs and designated viewing areas. There was considerable urgency in FPSM's quest for funding: it had negotiated patiently and at length with conservation agencies to raise most of the purchase funds, but its community fund-raising efforts were still about $350,000 short of the amount needed to close the transaction by the seller's deadline.

CHINO CIENEGA FOUNDATION, PALM SPRINGS, CA *continued*

Initially, the foundation felt that its grant-making program had no room for the level of support the FPSM was seeking. First, the amount required was far beyond the scope of grants the foundation customarily made. Second, such a grant would depart from the foundation's emphasis on international programs. Finally, the foundation had already committed its grant making into the following year and there was nothing left in the budget to enable a grant on such short notice.

But reflecting on the FPSM's request, Nichols began to see the possibilities. He thought of his family's longstanding ties to the region, and also of the peace such a purchase could bring to the community, which years earlier had been embroiled in divisive politics over land use proposals. He wondered if a PRI loan would work, and following unanimous board approval, offered the organization a bridge loan to give it time to complete its fund-raising plan. Time was short, and the foundation had no paperwork templates for this type of loan. Nichols remembered meeting Peter Berliner, who at the time was managing director of Mission Investors Exchange, at one of its conferences, and Nichols called him to discuss the PRI opportunity. Berliner, in turn, put him in contact with the Gaylord and Dorothy Donnelley Foundation of Illinois, which had extensive experience in land conservation transactions. Within days, templates for loan agreements and related documents were on their way to Palm Springs.

Chino Cienega Foundation provided a low-interest (2.5 percent) bridge loan of $350,000 to FPSM with the term of approximately one year. The agreement was that this money (along with other funds the group raised) would go toward the purchase of the land. FPSM then had the following year to raise funds and repay its debt to the foundation.

PROCESS: As the president of a small foundation with no staff, Nichols relied on assistance from Mission Investors Exchange's network to draft documents in a timely manner. The generosity of the Gaylord and Dorothy Donnelley Foundation proved to be crucial to the foundation's ability to act quickly and, hence, to the transaction's success.

PARTNERS INVOLVED IN INVESTMENT: None

PROJECTED IMPACT: Although the foundation was already fully subscribed as far as grants for the coming year, and ultimately went over the 5 percent distribution requirement, this first-time PRI will recirculate funds back to the foundation that will become available for future

CHINO CIENEGA FOUNDATION, PALM SPRINGS, CA *continued*

grant (or PRI) cycles. Accountants for the foundation had to be educated on the treatment of PRIs, but they do not anticipate any financial shortcomings.

Without this loan, this transaction to conserve the land would not have been possible. The Chino Cienega Foundation was able to participate in the perpetual preservation of land that meant so much to its founding family. The community of Palm Springs benefits immeasurably from the preserving this land for public enjoyment. Finally, the preserved land provides wildlife with a stable habitat in which to thrive unaffected by further development.

ON-THE-GROUND INSIGHTS:

Don't be afraid to try something new. Chino Cienega Foundation has prided itself on finding ways to turn a "no" into a "yes." This may be its best example yet, stemming from a willingness to try a new funding mechanism despite considerable temporal and financial challenges.

Reach out to your community for help. The foundation could not have so confidently pursued this PRI loan without the valuable advice of Peter Berliner and others at Mission Investors Exchange. And without Mission Investors Exchange, contact with the Gaylord and Dorothy Donnelley Foundation, and the resources it provided, would have been highly unlikely.

Being small has its advantages. A small foundation can act quickly, call a meeting when needed, hash out the issue, and approve it as may be appropriate.

LINKS

Chino Cienega Foundation

Friends of Palm Springs Mountains

Gaylord and Dorothy Donnelley Foundation

Mission Investors Exchange

Read more about this case example on Mission Investors Exchange's website.

DAKOTA FOUNDATION, COLORADO SPRINGS, CO, AND JAMESTOWN, ND

INVESTMENT SUMMARY

Investee:	SJF Ventures
Asset Class:	Private Equity—Fund
Investment Amount:	$50,000, spread out over time as opportunities arose
Impact Sector(s):	Community & Economic Development; Employment & Job Related
Date of Investment:	First investment made 1999; last investment made 2005
Projected Exit:	Varies depending on when companies within the fund are sold
Financial Return Goal:	Below Market Rate

The Dakota Foundation was founded to address social issues and enhance human capabilities through activities that combine business discipline with charitable intent. It has been actively engaging in PRIs since 1998, generally in the areas of economic development and job training in North Dakota and New Mexico. The foundation seeks to make PRIs to expand the range and impact of recipients' programs. Its intent is to help the recipient attract other sources of capital, thereby reducing its dependence on grant funds. As the PRIs are repaid, the funds become available for redistribution to the foundation's other philanthropic projects. Thus, the foundation can recycle more of its resources to meet other funding needs. The Dakota Foundation chose to invest in SJF Ventures to further this goal.

The guiding purpose of SJF Ventures is to create quality employment for low-income individuals and communities by financing and assisting companies that generate social, environmental, and financial gains. It invests in expanding industrial and clean technologies, business services, and consumer products companies in the eastern United States.

DAKOTA FOUNDATION, COLORADO SPRINGS, CO, AND JAMESTOWN, ND *continued*

PROCESS: The Dakota Foundation makes a great effort to streamline its PRI process. All of its loan provisions adhere to the same loan agreement, although the specific terms are customized to the individual investments. All loans are unsecured, full recourse obligations. In most cases, no principal payments are required prior to the maturity date of the note. Loan recipients are permitted to prepay the loan in whole or in part. Interest payments are due semiannually. In several cases, the loan agreements have provided for postponing the interest due in the first one to four years and paying the postponed interest ratably over the remaining life of the loans. Reporting requirements for the recipients are also standardized and clearly stated.

PARTNERS INVOLVED IN INVESTMENT: None

FINANCIAL AND SOCIAL IMPACT: The Dakota Foundation committed to invest $50,000 in the partnership. The partnership issued capital calls as funds were needed to invest in additional companies. The Dakota Foundation made nine separate investments over seven calendar years, averaging $5,000 each. Income and expenses of the partnership have been reported to the partners on an IRS Schedule K-1 (Form 1065), and periodic distributions have been made when companies the partnership invested in were sold. Since inception, SJF Ventures has created 7,039 jobs and funded 44 companies.

"NONPROFIT ORGANIZATIONS CAN BENEFIT FROM THE APPLICATION OF BUSINESS DISCIPLINE, BUSINESS APPROACHES, AND A FOCUS ON CUSTOMER SERVICE. PROGRAM-RELATED INVESTMENTS ARE AN EFFECTIVE MEANS OF ACHIEVING THIS DISCIPLINE. WE INVEST IN PEOPLE AND PROGRAMS RATHER THAN SIMPLY MAKE GRANTS."

— BART HOLADAY, *Founder and Chairman*

LINKS

The Dakota Foundation

SJF Ventures

Socioeconomic Impacts of the Sustainable Jobs Fund

O. P. AND W. E. EDWARDS FOUNDATION, RED LODGE, MT

INVESTMENT SUMMARY

Investee:	Mountain Springs Villa
Asset Class:	Private Debt
Investment Amount:	$100,000
Impact Sector(s):	Housing
Date of Investment:	2010, renegotiated and extended in 2014
Projected Exit:	2015, extended to 2020
Financial Return Goal:	Below Market Rate

The foundation had just received a construction loan pay-off of $100,000 from Habitat for Humanity when it learned that low-income residents of a Red Lodge manufactured home park had formed a cooperative with the help of NeighborWorks Montana and had purchased their park. The new cooperative needed to blend below-market-rate financing with its conventional bank financing to achieve loan payments the residents could afford.

The foundation made a $100,000 loan that bought out NeighborWorks Montana's interest in Mountain Springs Villa, the cooperative. Initial terms were five years, 2 percent interest only with a balloon payment at term. The loan was renegotiated in 2014 for six additional years to a lower interest rate (0.5 percent), so that some principal can be repaid while keeping payments at an affordable level.

O. P. AND W. E. EDWARDS FOUNDATION, RED LODGE, MT *continued*

PROCESS: The foundation also had a good relationship with NeighborWorks Montana, which is part of the NeighborWorks America affordable housing network. The foundation has been making loans to high-quality grantees for years and is comfortable using debt as a philanthropic tool. Its sole staff member handled the process in conjunction with board members. The loan was documented with the foundation's standard one-page agreement.

PARTNERS INVOLVED IN INVESTMENT: NeighborWorks Montana assisted the cooperative with formation and financing and provides ongoing technical assistance. This work is carried out with ROC USA, which helps form manufactured home cooperatives throughout the United States. First Interstate Bank is also a lender to the cooperative.

PROJECTED IMPACT: Members of the cooperative were able to blend conventional and mission financing sources for an overall affordable loan payment. This loan empowered the residents of Mountain Springs Villa to stay in their affordable manufactured housing and become property owners who control their own land and cooperative enterprise.

ON-THE-GROUND INSIGHTS: The foundation emphasizes the importance of obtaining a borrowing resolution from the full board of directors of an investee to ensure the investment and its terms are fully understood by all the stakeholders in the investee's organization. In addition, the foundation is now building principal repayment into the terms of most investments, setting up the expectation that loans are not "evergreen" and must be repaid.

"WE WOULDN'T DO THIS WITH ANYONE JUST OUT OF THE BLUE. WE MAKE INVESTMENTS WITH PEOPLE WE KNOW AND WITH LONG-TERM GRANTEES."

—JO ANN EDER, *Foundation President*

LINKS

NeighborWorks Montana

The O. P. and W. E. Edwards Foundation

ROC USA

PRI Loan template to non-profit organization, from O. P. and W. E. Edwards Foundation

Mountain Springs Villa

Read more about this case example on Mission Investors Exchange's website.

THE BETSY AND JESSE FINK FOUNDATION, NORWALK, CT

INVESTMENT SUMMARY

Investee:	Wholesome Wave Foundation Charitable Ventures Inc., Healthy Food Commerce Investments Program
Asset Class:	Private Debt—Bridge Loan, Guarantee Loan
Investment Amount:	$100,000
Impact Sector(s):	Agriculture & Food
Date of Investment:	2012
Projected Exit:	Maturity of 3 to 5 years
Financial Return Goal:	Below Market Rate

The Betsy and Jesse Fink Foundation is committed to addressing environmental issues through market-based solutions that contribute to the creation of a low-carbon economy. The foundation saw an opportunity to expand its impact beyond grants through a robust PRI program. Initially, this program focused on land conservation and preservation, although in recent years it has broadened its focus to include an environmental commitment to sustainable agriculture and food systems, specifically food waste and food access as it relates to food production and climate resiliency. Its previous portfolio's impact strategy was less defined and consisted primarily of holding stock in companies that focused on carbon use reduction projects. The foundation has worked to better clarify this strategy and has a current target to invest 15 to 30 percent of its endowment toward direct impact investments.

In 2012, the foundation made a $100,000 loan to Wholesome Wave. Betsy and Jesse Fink were seed funders in the organization, and Betsy was a founding board member. Wholesome

THE BETSY AND JESSE FINK FOUNDATION, NORWALK, CT *continued*

Wave used the capital to support three organizations: Grasshoppers Distribution (loan), Farm Fresh Rhode Island (guarantee), and City Growers (bridge loan). These financing models enabled these organizations to expand their businesses, meet increased demands for distribution, and invest in training and education for employees.

PROCESS: The family office CFO played a key role in drafting the loan documents. Wholesome Wave pursued a pipeline of impact investments and performed due diligence on potential investments, then used the foundation loan proceeds to make investments.

PROJECTED IMPACT: The loans made by Wholesome Wave remain active, and it has started to see repayment from Farm Fresh Rhode Island. This has allowed Wholesome Wave to begin to repay the foundation at zero percent interest.

Wholesome Wave invested the foundation's capital in growth-oriented enterprises that engage in activities including aggregation, distribution, and processing of regional farm products for sale in regional markets. The organizations used the funding to build infrastructure that focuses on food hub financing and sales while building food hub expertise and knowledge about impact investments and related policy. The investment in City Growers helped the organization drive passage of a major ordinance allowing commercial farms in Boston and as a result, as of 2014, 20,000 square feet of vacant, city-owned land is now available for commercial urban farming or gardening.

"WE BELIEVE PRIs ARE AN IMPORTANT TOOL FOR OUR FOUNDATION AND ARE WILLING TO BE SEED CAPITAL IN ORDER TO PROVIDE THE LEARNING EXPERIENCE AS WELL AS BUILD CAPACITY IN THE SECTOR."

—JOAN BRIGGS, *Executive Director*

LINKS

The Betsy and Jesse Fink Foundation

Wholesome Wave

Farm Fresh Rhode Island

City Growers

Read more about this case example on Mission Investors Exchange's website.

MAX M. AND MARJORIE S. FISHER FOUNDATION, SOUTHFIELD, MI

INVESTMENT SUMMARY

Investee:	Artesian Farms
Asset Class:	Private Debt—Seed Funding
Investment Amount:	$50,000
Impact Sector(s):	Agriculture & Food; Employment & Job Related
Date of Investment:	2014
Projected Exit:	2018
Financial Return Goal:	Below Market Rate

The PRI program at the Max M. and Marjorie S. Fisher Foundation has been active for the past three years. Its mission has four pillars, one of which centers on the Detroit area in its support of early education, success in college, and access to jobs. The foundation is a strong advocate for attracting investment to local Detroit businesses from venture capitalists, institutions, individuals, and philanthropic organizations.

Phillip Wm. Fisher, the foundation's vice chairman, is the founder of Mission Throttle, an impact investing firm dedicated to propelling the success of social entrepreneurs. His familiarity with the space has helped the foundation to be well-versed in the need for capital to flow to Detroit's small businesses—especially ones with the promise of stable job creation and training for the community.

Artesian Farms is a hydroponic produce-growing facility in the Brightmoor neighborhood of northwest Detroit. Its purpose is not only to run a thriving business, but also to transform

MAX M. AND MARJORIE S. FISHER FOUNDATION, SOUTHFIELD, MI *continued*

and revitalize the lives of its employees in an economically depressed area. Artesian Farm's founder, Jeff Adams, is a social entrepreneur whom the foundation already knew and trusted. Furthermore, Mission Throttle was involved in the early stages of the enterprise, and the nearby Skillman Foundation was a co-investor. Potential investment was fully vetted and the players were trustworthy, but it was still high-risk. However, the Fisher Foundation was ready to lead by example, ultimately lending Artesian Farms $50,000, alongside an identical amount from the Skillman Foundation. The venture raised an additional $300,000 from a group of investors for a total of $400,000 in start-up funding.

PROCESS: This opportunity arose out of existing relationships with the business' founder, Mission Throttle, and the Skillman Foundation. Ultimately, it relied on Mission Throttle's expert due diligence and risk assessment of Artesian Farms. This aided an internal discussion on the risks associated with the investment it was willing to assume before it was ready to invest.

PARTNERS: Skillman Foundation invested $50,000 and the founder raised $300,000 from a group of local investors.

PROJECTED IMPACT: The investment will return 4 percent interest over a three-year amortization, with interest only in year one and repayment of principal scheduled for years two through four. The intended social impact is to create jobs, economic development, and healthy food alternatives in the hard-hit neighborhood of Brightmoor.

ADDITIONAL INSIGHTS: Impact transactions can take a long time to come to fruition. It took almost 18 months from the time the social entrepreneur contacted the foundation for an impact investment until the deal closed. During that time, various funders came together to provide technical assistance to the entrepreneur and share due diligence in order to get all aspects of the transaction to the point where it was investment-ready.

LINKS

Max M. and Marjorie S. Fisher Foundation

Mission Throttle

Skillman Foundation

Artesian Farms

Read more about this case example on Mission Investors Exchange's website.

HIGH STAKES FOUNDATION, ARLEE, MT

INVESTMENT SUMMARY

Investee:	NeighborWorks Montana
Asset Class:	Private Debt—General Recourse Loan
Investment Amount:	$250,000
Impact Sector(s):	Community & Economic Development; Housing
Date of Investment:	2014
Projected Exit:	2019
Financial Return Goal:	Below Market Rate

The High Stakes Foundation supports visionary people and organizations that are leading and implementing changes that create a sustainable future for Montana. It strives to invest all its assets sustainably while spending them down over about ten years. The foundation likes to make PRIs where possible as one way of generating income from its mid-term investments. NeighborWorks Montana came to the foundation's attention through a consultant who told the foundation about the resident-owned cooperatives that NeighborWorks Montana was organizing to help people living in manufactured housing to buy their housing parks.

The foundation made a $250,000 loan to NeighborWorks Montana for five years, 4 percent interest-only paid quarterly and a balloon payment at term. While the foundation's initial interest was sparked by NeighborWorks Montana's resident-owned cooperatives, it did not invest directly into one of the new cooperatives. Instead it invested in NeighborWorks Montana as a whole and provided capital to support all of NeighborWorks' affordable housing work in Montana. This made the investment less risky because it is backed by NeighborWorks Montana's balance sheet strength, rather than a single resident-owned housing cooperative.

HIGH STAKES FOUNDATION, ARLEE, MT *continued*

PROCESS: The foundation is already experienced using debt as a philanthropic tool. In addition, it actively seeks cash placements that are more attractive than low-interest, low-social-return bank accounts. The foundation underwrote the NeighborWorks Montana investment alongside a trusted consultant and another individual Montana investor who was considering the same impact investment. High Stakes did not have a strong prior existing relationship with NeighborWorks Montana but knew its work. The organization provided a full notebook of financial and mission underwriting information for the foundation to review. The loan was documented with a several-page loan agreement provided by NeighborWorks Montana.

PARTNERS: An individual Montana investor also lent money to NeighborWorks Montana during this investment process.

PROJECTED IMPACT: High Stakes Foundation earns 4 percent annual interest. NeighborWorks Montana gained affordable capital for its work. This loan empowers residents in manufactured housing to stay in their affordable homes while becoming property owners who control their own land and cooperative enterprise. It can also support other affordable housing development by NeighborWorks Montana.

"IF YOU AREN'T COMFORTABLE ABOUT IMPACT INVESTING BECAUSE OF THE FINANCIAL RISK, MAKE THE FIRST INVESTMENTS THE SAME SIZE AS YOUR ROUTINE GRANTS. IF YOU LOSE A LOAN, IT IS JUST A GRANT YOU WOULD HAVE MADE ANYWAY."

—DAWN MCGEE, *President and CEO*

LINKS

High Stakes Foundation

NeighborWorks Montana

Read more about this case example on Mission Investors Exchange's website.

HRK FOUNDATION, ST. PAUL, MN

INVESTMENT SUMMARY

Investee:	Minnesota Historical Society
Asset Class:	Guarantee—Line of Credit
Investment Amount:	$10,000–$100,000
Impact Sector(s):	Arts, Culture & Humanities
Date of Investment:	2006 (with multiple renewals since, most recently in 2013)
Projected Exit:	N/A
Financial Return Goal:	Market Rate

HRK Foundation serves Minnesota at large, the Twin Cities (with particular focus on St. Paul), the St. Croix Valley, and northern Wisconsin, specifically in the areas of arts, education, health, and community building (i.e., affordable housing, sustainable agriculture, and cross-sector development). It began to explore impact investing in response to economic downturns in the early 2000s when its capacity for grant making was limited but its desire to generate social impact was not. Through staff engagement with the foundation's younger generations, the foundation identified impact investing as an important tool to achieve impact. The board realized the potential opportunities it could create for engaging new partners creatively, beyond what grant making can do. The CFO and CIO quickly educated themselves about impact investing, and the foundation currently has 20 percent of its endowment allocated to impact investing. While the board is comfortable taking higher risks and potentially sacrificing returns for social impact through PRIs, it expects impact investments made from the endowment to generate market-rate returns.

HRK FOUNDATION, ST. PAUL, MN *continued*

HRK Foundation staff is part of the family office, providing the foundation with a pool of resources across departments and issue areas including legal, tax, financial, and investment advisors. The foundation has 1.5 dedicated staff members, while nine staff members serve the family office.

PROCESS: The Minnesota Historical Society identifies a potential acquisition (which has been approved by the History Museum's Accessions Committee) and formally requests a loan from the foundation. HRK Foundation issues the loan within seven days, and the museum submits a repayment plan within a month. Funds to repay this loan are raised by the museum for this purpose after the loan is issued. Due to the unique structure and cross-staffing within the family office, HRK Foundation is able to create these transactions in-house, without co-investors.

PROJECTED IMPACT: The investments earn the foundation 2 percent interest over a three-year term and help restore priceless historical artifacts to promote education and engagement in local history.

ON-THE-GROUND INSIGHTS:

Don't re-create the wheel. At the time the foundation extended the line of credit to the Minnesota Historical Society, two local foundations had recently conducted similar transactions. By sharing resources, the HRK Foundation reduced the amount of time required by lawyers to prepare legal documents.

Know your CDFIs. In the process of reviewing the portfolio for MRIs, the foundation discovered CDFI investments as a simple and effective vehicle for investing for impact.

Educate your board. Through a series of conversations with foundation board and trustees, HRK was successful in garnering support and enthusiasm for impact investments. As the foundation began to develop a positive track record with these investments, board support grew, allowing the foundation to take a more proactive approach to its investments and participate in field-building conversations.

LINKS

HRK Foundation

Minnesota Historical Society

Read more about this case example on Mission Investors Exchange's website.

IDP FOUNDATION INC., CHICAGO, IL

INVESTMENT SUMMARY

Investee:	Sinapi Aba Trust (IDP Rising Schools Program)
Asset Class:	Private Debt
Investment Amount:	$125,000, then $1 million
Impact Sector(s):	Community & Economic Development; Education
Date of Investment:	2013 and 2014
Projected Exit:	2020 and 2017
Financial Return Goal:	Below Market Rate

The keystone program of the IDPF is the IDP Rising Schools Program, which it launched in 2009 in Ghana to boost the development of existing low-cost private schools by efficiently delivering financial and capacity building services to help these schools move away from aid-based programs.

The program's objective was to use philanthropic dollars as risk capital to develop an innovative, scalable, and replicable approach to support sustainable investment in educational initiatives that provide even the most deprived with a quality education. IDPF developed this program in response to the clear market demand of impoverished parents to address their children's lack of access to quality public education. As a result, a multitude of very low-cost, individually owned schools are attempting to create such access, not just in Ghana, but all over the developing world.

IDP FOUNDATION INC., CHICAGO, IL *continued*

The program targets only existing schools that reach those at the very bottom of the economic pyramid. School fees in these types of schools average $15 per term. The program began with a pilot study of 105 existing private schools that served 27,000 primary-aged children. After three years of demonstrated success, it has transformed into a fully developed program and is expanding throughout Ghana.

IDPF has built the capacity of Sinapi Aba Trust (SAT) to sustainably expand the IDP Rising Schools Program in Ghana through three stages of financing: (1) a three-year grant to pilot the program; (2) a PRI in the form of a zero-interest, seven-year loan in August of 2013 for $125,000; and (3) a $1 million loan for three years at an interest rate of 12 percent per annum in September 2014. A 12 percent interest rate for the large phase 3 loan is below market because SAT would pay a higher rate for a similarly-conditioned loan from a commercial investor and IDPF is accepting a significant risk of currency fluctuation doing business in Ghana.

PROCESS: As mentioned above, the IDP Rising Schools Program is central to the IDPF's mission and purpose. The partnership with SAT was essential to the program's success, as was the heavy involvement of IDPF staff members who took many trips to Ghana to build a relationship with SAT and to work with it to create a successful and replicable model. As was the goal, the IDPF is no longer involved in the day-to-day operations, but instead relies on SAT to manage the program and to provide valuable reporting details to IDPF.

PARTNERS INVOLVED IN INVESTMENT: None

PROJECTED IMPACT: The IDP Rising Schools Program model is sustainable, but it does require initial capital to build toward complete sustainability. IDPF is expecting the zero-interest loan to be repaid in full in August 2020 and the operations loan to be repaid with interest in September 2017. Loans are repaid by the schools once they become financially self-sufficient.

The IDP Rising Schools Program has led to better school management, improved infrastructure, and increased enrollment with participating low-cost private schools. As of April 2015, 393 low-cost private school owners have completed the IDP Rising Schools Program training in financial literacy and school management, affecting more than 96,000

IDP FOUNDATION INC., CHICAGO, IL *continued*

children. Over 240 loans have been disbursed in the amount of 2.3 million Ghanaian cedis ($545,000), which have provided these deprived schools with the capital they require to improve their infrastructure or add classrooms, purchase land, and purchase or repair school vehicles to transport children safely to and from school. Furthermore, 32 percent of schools continue reinvesting in school improvements by taking subsequent loans. The IDP Rising Schools Program is expanding to a total reach to 580 schools and 150,000 pupils by July 2016.

ON-THE-GROUND INSIGHTS:

Get your hands dirty and spend some time in the field to understand the conditions and local context in which a social enterprise in a developing country operates.

Include space for flexibility in your budgets and financing plans to make adjustments to a program as lessons are learned along the way.

Build the capacity of your partners through both mentoring and a willingness to finance line items others refuse to finance—staff costs, external research, business plan development.

Listen to your partners on the ground because they will be your greatest resource in making a project work.

LINKS

IDP Foundation

IDP Rising Schools Program

Sinapi Aba Trust

Read more about this below-market case example and this market-rate case example on Mission Investors Exchange's website.

THE LORA L. & MARTIN N. KELLEY FAMILY FOUNDATION TRUST, PORTLAND, OR

INVESTMENT SUMMARY

Investee:	Ecotrust Forest Fund II, LLC (for-profit subsidiary of Ecotrust)
Asset Class:	Private Equity—Fund
Investment Amount:	$750,000
Impact Sector(s):	Environmental Conservation & Preservation
Date of Investment:	2013
Projected Exit:	10 years
Financial Return Goal:	Market Rate

Lora and Martin Kelley created the Kelley Family Foundation (KFF) in 1990 to enhance the public good through education and by providing individuals and communities with tools for self-improvement. In 2012, the foundation hired a consultant to update its investment policy statement to commit to a goal of being 100 percent invested in impact investments by 2020. During this process, the foundation reviewed several resources from the KL Felicitas Foundation website, including its investing policy statement. To date, KFF has placed investments in public equities, bonds, and private equities with impact goals. Currently, 45 percent of its investment portfolio has ESG screens or proactive impact investing goals. The expectation is that all of these investments will earn a market-rate return against respective benchmarks.

THE LORA L. & MARTIN N. KELLEY FAMILY FOUNDATION TRUST, PORTLAND, OR *continued*

KFF had an existing relationship with Ecotrust on its grant-making side. After the foundation updated its investment policy and asset allocation, it was looking for additional investment opportunities for the alternative, non-correlated asset class, which is the class of investments that supposedly does not fluctuate in parallel with the market average. The Ecotrust Forest Fund II seemed worthy of further exploration both because it was a market-rate investment in this asset class and because it is located in the Pacific Northwest, which aligns with the foundation's impact goals.

PROCESS: KFF worked with its consultant to develop a revised investment policy, conduct due diligence, and prepare a write-up for the board. It also contracted a lawyer to review the operating agreement. After about six months of conversation and work related to due diligence, the board voted in favor of making the investment. It was an additional four months before the first round of capital closed.

PARTNERS INVOLVED IN INVESTMENT: None

PROJECTED IMPACT: The investment's financial impact is still to be determined over the course of its ten-year term with up to two 2-year extensions. Its benchmark is NCREIF Timberland Index. In terms of social impacts, the investment provides jobs in rural, economically distressed communities through active harvesting, forest health treatments, fire management, infrastructure maintenance, and restoration activities on the properties. The Ecotrust Forest Management's (EFM) Forest Stewardship Council-certified approach requires highly skilled workers, resulting in high-quality, better paying jobs for local contractors. EFM has a stated preference for local, minority-owned, or women contractors, and has maintained a greater than 75 percent level of local labor employment. In addition, Ecotrust Forests contracts with local mills to provide timber to smaller, family-owned mills, which in turn support the rural wood product industry. The organization is demonstrating that conservation-based forestry can provide improved forest health and ecosystem services such as carbon sequestration, improved water quality, and habitat for diversity, while achieving market-rate returns through riparian and habitat restoration. Lastly, the long-term and permanent impacts of the fund have been designed so that at the end of its investment period the manager plans to convey culturally and ecologically valuable land into the hands of long-term strategic owners (such as tribes, conservation groups, and community forests) that can ensure the permanent protection of the social and ecological uplift created via the investment.

THE LORA L. & MARTIN N. KELLEY FAMILY FOUNDATION TRUST, PORTLAND, OR *continued*

ON-THE-GROUND INSIGHTS:

Time and cost. This type of investment is time-intensive and the level of trustee time investment and due diligence requirements creates additional costs. However, these costs are comparable to other private equity investments.

Use consultants. Direct investments take work and commitment. Foundations with small or no staffs can use philanthropic and legal consultants to provide due diligence services.

Work on what you know. Look for investment opportunities that align with the trustees' expertise areas. In this case, KFF trustees had strong forestry and finance knowledge in their professional backgrounds, which helped them understand and have increased comfort levels with a non-traditional, layered financing approach that included New Markets Tax Credits, riparian restoration, conservation easements, and carbon credits.

"THIS PARTICULAR INVESTMENT HAS BEEN MUCH MORE REWARDING FOR ME PERSONALLY IN CONTRAST TO A PUBLIC EQUITY INVESTMENT. THERE IS A MUCH MORE IMMEDIATE CONNECTION TO THE INVESTMENT IN TERMS OF BOTH OUR MISSION AND THE GEOGRAPHIC CONNECTION TO THE PACIFIC NORTHWEST. THIS IS WHAT WE ARE TRYING TO ACCOMPLISH... HOPEFULLY DEMONSTRATING HOW TO MAKE MARKET-RATE RETURNS WHILE INVESTING IN RESPONSIBLE FORESTRY PRACTICES IN OUR GEOGRAPHIC FOCUS AREA."

— CRAIG KELLEY, *Trustee*

LINKS

Ecotrust Forest Management Inc.

Ecotrust

KL Felicitas Foundation Impact Investing Policy

Read more about this case example on Mission Investors Exchange's website.

HARRIS AND ELIZA KEMPNER FUND AND THE MOODY METHODIST PERMANENT ENDOWMENT FUND, GALVESTON, TX

INVESTMENT SUMMARY

Investee:	Ten social agencies receiving social service block grant funds
Asset Class:	Private Debt—Loan Pool
Investment Amount:	$1.3 million
Issue Area:	Community & Economic Development; Employment & Job Related, Human & Social Services
Date of Investment:	2010
Projected Exit:	2011
Financial Return Goal:	Below Market Rate

The Harris and Eliza Kempner Fund has had a PRI program in place since 1992, as it believed loans to local businesses were the most appropriate way to advance its mission of supporting the needs of Galveston, Texas. The demands on its area were intensified in the wake of Hurricane Ike in 2008. At that time, several dozen Galveston County social service agencies collaboratively applied for federal social services block grant (SSBG) funding to address human service needs throughout the county. The lead agencies in this collaboration were the University of Texas Medical Branch, Catholic Charities, Lutheran Social Services, and Gulf Coast Center. The collaborative succeeded in garnering about $40 million in federal funding for capital purchases, service delivery, and direct aid that was to be spent by October 1, 2010. Since these funds could be expended only on a reimbursable basis, and there was lag time between award and disbursement, small sub-recipient agencies suffered a severe cash-

HARRIS AND ELIZA KEMPNER FUND AND THE MOODY METHODIST PERMANENT ENDOWMENT FUND, GALVESTON, TX *continued*

flow problem, in addition to a short time frame to properly expend their allocations. To fill the gap, the Harris and Eliza Kempner Fund, together with the Moody Methodist Permanent Endowment Fund, created a loan pool. Treated as a PRI, it offered loans at a very low interest rate of 1.5 percent and considered them to be charitable in nature.

PROCESS: The loan pool formed when the Harris and Eliza Kempner Fund approached other foundations in Galveston about joining in an effort to assist the social agencies that were receiving SSBG funds. After several weeks of meeting, discussing, and negotiating with other foundations on the island, the Moody Methodist Permanent Endowment Fund joined with the Kempner Fund in offering these short-term loans with repayment anticipated no more than six months from origination date. A joint committee with representation from both foundations made final decisions on the loan details. The Harris and Eliza Kempner Fund supplied two-thirds of every loan, and the Moody Methodist Permanent Endowment Fund supplied the remaining third. For accounting and record-keeping purposes, loan recipients received separate checks and each foundation was responsible for its own collection. Because needs were urgent, efforts were made to arrive at decisions within one week once an application was completed.

PARTNERS INVOLVED IN INVESTMENT: The social service agencies collaborated in securing the SSBG funds.

FINANCIAL AND SOCIAL IMPACT: The SSBG loan pool made 15 loans to ten organizations between February 2010 and September 2011. The total circulated was $1.3 million. One of the loans defaulted, representing 1 percent of the total investment. The loan collaborative was successful in circulating more than $1.3 million in the community. The social service agencies had access to cash and were able to provide services to the community and make repairs to their facilities while they awaited reimbursement.

ON-THE-GROUND INSIGHTS:

The government may not work as fast as promised. When dealing with the federal government, assume the time frame will get pushed back. “In retrospect we should have made the terms of the loans longer, and for larger amounts,” said Anne Brasier, executive director of the Harris and Eliza Kempner Fund. Millions of unspent dollars were temporarily forfeited back to the federal government after Congress failed to vote an extension. Due to the delays, the agencies were forced to continually ask the foundations for extensions, requiring additional meetings and paperwork, which could have been avoided had the terms been longer.

HARRIS AND ELIZA KEMPNER FUND AND THE MOODY METHODIST PERMANENT ENDOWMENT FUND, GALVESTON, TX *continued*

In emergency situations, work with organizations that have preexisting relationships with the foundation(s). Given the emergency nature of the situation and limited time for due diligence, the foundations provided loans only to organizations that they knew well and with which they had existing relationships.

Consider what will happen to nonprofit partners once funding is exhausted. Several of the nonprofits that received bridge loans hired new employees to provide increased services during recovery efforts. However, after federal funding ran out, many employees were laid off because the employment levels were not sustainable in the long term.

For pooled investments, consider appointing one foundation to receive applications and generate all paperwork. It was easy for the Moody Methodist Permanent Endowment Fund to partner with the Harris and Eliza Kempner Fund since the Harris and Eliza Kempner Fund oversaw all of the paperwork. Once paperwork was finalized, the Moody Methodist Permanent Endowment Fund was responsible for sending its own award letters and issuing checks.

> "PROVIDING LOANS AS OPPOSED TO GRANTS PROTECTED THE CORPUS OF THE FOUNDATIONS IN AN ECONOMICALLY TOUGH TIME DURING THE FALLOUT OF THE GREAT RECESSION."
>
> —LYDA ANN THOMAS, *Former President*

LINKS

The Harris and Eliza Kempner Fund

Moody Methodist Permanent Endowment Fund

Social Services Block Grant Program

Block Grant Loan Pool Letter

90 Day Loan Document

LAUGHING GULL FOUNDATION, DURHAM, NC

INVESTMENT SUMMARY

Investee:	Self-Help Credit Union
Asset Class:	Deposits & Cash Equivalent
Investment Amount:	$250,000
Impact Sector:	Environmental Conservation & Protection
Date of Investment:	2014
Financial Return Goal:	Market Rate

Laughing Gull Foundation was incorporated in 2012. The foundation's mission is to honor its family's evolving identity while proactively addressing broken systems that have created inequality and harmed our planet. Laughing Gull's current program areas are LGBTQ equality, higher education in prisons, and environmental justice. The foundation's board members realize the importance of investing capital in a manner that is consistent with its values. From the foundation's inception, the board developed an investment policy that precludes investing in sectors and companies seen as conflicting with the foundation's mission. In addition to screening out non-aligned investments, the board looks at the social and environmental practices of the companies in which it invests and actively seeks investment opportunities that complement the overall mission of the foundation. In addition to being a socially responsible investor, Laughing Gull has allocated 10 percent of its portfolio to impact investments. To date, Laughing Gull has made investments in a start-up company, Natural Capital Investment Fund, RSF Social Finance, Ecotrust, and Aravaipa Ventures. The foundation also has a deposit held at Self-Help Credit Union in the form of a Green Term Certificate, a certificate of deposit that ensures the funds will go toward environmentally responsible ends.

LAUGHING GULL FOUNDATION, DURHAM, NC *continued*

PROCESS: It was an easy decision for Laughing Gull to open an account with Self-Help, which is headquartered in the same town as the foundation (Durham, North Carolina) and which has a long and celebrated track record of impact in low-income and underserved communities. Investing was simple, and the staff at Self-Help made the process very easy. Having an account with the credit union is virtually the same experience for the foundation as with a traditional bank, but with the same or better rates. The Green CD in which it invested aligned with the foundation's environmental justice focus, making the investment a good fit from both a geographical and mission standpoint.

PARTNERS INVOLVED: None

FINANCIAL AND SOCIAL IMPACT: The investment in the Green CD is paying market-rate interest and is a safe investment insured by the National Credit Union Administration. Deposits from investors such as Laughing Gull have made it possible for Self-Help to lend more than $242 million for sustainable, renewable energy and energy-efficient businesses. Self-Help is also a national leader in financing community development projects that preserve our natural resources. The credit union makes loans to businesses and nonprofits that are helping make a more sustainable world by focusing on areas such as:

- Renewable and solar energy projects
- Recycling businesses
- Sustainable agriculture/organic farms
- Sustainable forestry
- Land conservation
- Eco-tourism
- Green retail
- Environmental technology

LAUGHING GULL FOUNDATION, DURHAM, NC *continued*

Plus, the credit union's affordable housing and commercial real estate development projects adhere to green building practices to decrease resource usage. Funds from Green Term Certificates help finance these projects and loans.

The social impact of Self-Help goes beyond Laughing Gull's core mission areas. In addition to the credit union's environmental sustainability efforts, Self-Help has advocated for a number of national policy changes in the financial arena. The organization successfully pressured banks to cease the practice of payday lending and helped advance payday loan regulation nationally. Self-Help also bolstered consumer protections against auto loan and debt collection abuses and helped achieve national mortgage lending standards that will ensure fair, sustainable loans and a strong housing market.

LINKS

Laughing Gull Foundation

Self-Help Credit Union

Ecotrust

Aravaipa Ventures

Read more about this case example on Mission Investors Exchange's website.

CARL & ELOISE POHLAD FAMILY FOUNDATION, MINNEAPOLIS, MN

INVESTMENT SUMMARY

Investee:	Northside Home, LLC
Asset Class:	Private Debt
Investment Amount:	$4 million
Impact Sector(s):	Housing
Date of Investment:	2013
Investment Termination Date:	Full repayment in 2023
Financial Return Goal:	Below Market Rate

The Pohlad Foundation, established in 1993, supports efforts to improve the quality of life in the Minneapolis-St. Paul region. Northside Home is a joint venture of Urban Homeworks (UHW) and Project for Pride in Living (PPL), designed to create safe and affordable home ownership options in north Minneapolis. The program purchases and renovates houses, including remediation of hazardous building materials, and provides families with two options: a direct path to home ownership, or a lease-to-own phase with financial counseling to help families successfully move from tenancy to home ownership. PFF's focus is moving vacant properties to dwellings expediently. Performance covenants, written into the note, require on average renovations are completed within nine months of property acquisition and that no more than 20 percent of the dwellings completed are vacant.

When the project began in 2013, Northside Home had a goal of raising $13.70 million to complete 100 single-family homes. Pohlad Foundation made a $1 million grant and a $4

CARL & ELOISE POHLAD FAMILY FOUNDATION, MINNEAPOLIS, MN *continued*

million loan, with a 1 percent interest rate until January 1, 2018, then a 2 percent interest rate PRI. Originally, Pohlad Foundation's PRI to Northside Home came with a dollar-for-dollar match requirement as a way to attract more funding from other foundations, government, or financial institutions. However, because of rising costs and lender financing for only 80 percent of a home's sale price, the foundation removed this requirement. The PRI agreement was amended for this purpose in early July 2015.

PROCESS: The Pohlad Foundation allocated $5.4 million in grants and PRIs to diminish the impact of the housing foreclosure crisis in Minnesota. Despite successfully bringing 251 new home owners into the two zip codes most impacted by foreclosures, the situation in north Minneapolis remained difficult, especially after a tornado further caused significant damage to many homes. The development of Northside Home began shortly after a large portion of tornado damage was repaired. The foundation began conversations with UHW about a buy/sell or buy/lease-to-own initiative that would assist families that were ready for this product. UHW determined it would need additional assistance to complete this large project and reached out to PPL, a larger affordable housing developer, and negotiations began in earnest.

PARTNERS INVOLVED IN INVESTMENT: The project received a $1 million loan and a second $1 million loan pledge from Twin Cities Community Land Bank. Other grant investors include the Minnesota Housing Finance Agency and the city of Minneapolis, which provided gap financing and grants.

PROJECTED IMPACT: The foundation earns minimal interest (1 percent) on its investment, which is payable in quarterly increments until January 1, 2018, when the interest rate increases to 2 percent. Because this is an advancing promissory note, the loan value is also reduced by an individual house's outstanding principal and accrued interest due when it is sold. This loan will create affordable and healthier housing for families, add local construction jobs, improve north Minneapolis communities, and help children perform better academically by giving them stable housing. As of June 15, 2015, 21 properties were purchased or under site control. Of these properties two were sold to owner-occupants, nine households were under lease-purchase agreements; two homes were completed and being marketed for lease-purchase; two were under construction with completion by August 31; and six homes were scheduled for closing on August 1, with construction to begin immediately thereafter.

CARL & ELOISE POHLAD FAMILY FOUNDATION, MINNEAPOLIS, MN *continued*

"SOME OF THE FAMILIES WE WERE WORKING WITH DIDN'T HAVE A LARGE AMOUNT OF EXTRA DISPOSABLE INCOME SO PAYING OFF OLD DEBTS WAS DIFFICULT. DESPITE THAT, EVERYONE WHO WAS IN THE PROGRAM STILL SEEMED VERY INTERESTED IN PURCHASING A HOME AND WAS WILLING TO DO THE NECESSARY WORK TO GET THAT TO HAPPEN. IN TOTAL, OVER $10,000 WORTH OF BAD DEBT HAD BEEN PAID OFF BY FAMILIES IN THE PROGRAM. PPL'S FINANCIAL LITERACY TEAM HAD MET WITH NUMEROUS HOUSEHOLDS AND HAD A LIST OF APPROVED AND QUALIFIED FAMILIES TO MOVE INTO OUR REHABBED HOMES ONCE THEY WERE FINISHED."

—LINDA TACKE, *Former Senior Administrative Officer*

LINKS

Carl & Eloise Pohlad Family Foundation

Northside Home

Urban Homeworks

Project for Pride in Living

Read more about this case example on Mission Investors Exchange's website.

THE ROOSA FUND OF BLOCK ISLAND ECUMENICAL MINISTRIES INC., BLOCK ISLAND, RI

INVESTMENT SUMMARY

Investee:	Block Island Economic Development Foundation Inc.
Asset Class:	Private Debt
Investment Amount:	$342,000
Impact Sector(s):	Education; Housing; Human & Social Services
Date of Investment:	2013
Projected Exit:	Ongoing
Financial Return Goal:	Below Market Rate

The Roosa Fund of Block Island Ecumenical Ministries Inc. is a donor-advised fund that was established in 2011 with a gift from the Vernon D. and Florence E. Roosa Family Foundation Trust. It is a moderately sized fund with $3.8 million in investments at the end of 2013. Its mission is to respond to the needs of Block Island, Rhode Island, by providing assistance to vulnerable people—including the poor, the young, and the elderly—and by improving Block Island's vulnerable natural environment. The fund's giving emphasizes affordable housing, other basic human needs, local environmental improvement, and education. It also has limited programs helping the poorest of the poor in Haiti and Sendai, Japan.

The fund has ties to the Block Island Economic Development Foundation Inc. (BIED), a nonprofit that has provided the largest percentage of affordable housing on Block Island. BIED opened a much-needed community center, senior learning program, and preschool called the Early Learning Center Inc. BIED negotiated a $350,000 mortgage at 7.5 percent

THE ROOSA FUND OF BLOCK ISLAND ECUMENICAL MINISTRIES INC., BLOCK ISLAND, RI
continued

interest from Washington Trust for a building to house the organization. The mortgage was more costly than it expected, but BIED chose not to raise the center's rent and, as a result, was losing money. The Roosa Fund took over the mortgage from BIED and lowered the interest rate from 7.5 percent to 2 percent over 25 years, easing BIED's financial strain and allowing the center's rent to remain low.

PROCESS: The fund does not have any full-time staff members and works to keep administrative costs low—currently these costs are about 4 percent of its operating budget. The fund receives legal services from a consultant tax attorney and works with an advisor at Washington Trust to vet and choose investments. It opted to work with Washington Trust for its small size, customer-service orientation, and low fees, in addition to its conservative investing philosophy.

PROJECTED IMPACT: The Early Learning Center Inc. had been struggling financially: its day-care program does not receive funding from the town or state, and it receives only limited funding for its preschool. By refinancing the mortgage, BIED did not have to increase the center's monthly rental payments, allowing the island's only early learning enterprise to continue operating.

LINKS

The Roosa Fund of Block Island Ecumenical Ministries Inc.

Read more about this case example on Mission Investors Exchange's website.

SWIFT FOUNDATION, SANTA BARBARA, CA

INVESTMENT SUMMARY

Investee:	RSF Food & Agriculture PRI Fund
Asset Class:	Public Debt—Fund
Investment Amount:	$800,000
Impact Sector(s):	Agriculture & Food
Date of Investment:	2010 and 2011
Projected Exit:	Still active (5-year term)
Financial Investment Goal:	Below Market Rate

Swift Foundation was incorporated in 1999. Its mission is to support Santa Barbara-area stewards and their allies who are dedicated to protecting biological and cultural diversity; it primarily funds projects internationally. The Swift Foundation had made a handful of mission-related investments over the years and hired Amplifier Strategies in January 2013 to help create a new investment policy, which redesigned and formalized its impact investing strategy. Its new approach is to use core endowment funds (approximately $50 million initially) to generate returns for grant making, and it initially devoted approximately $10 million to below-market impact investments. Within the core endowment, Swift aims to create a portfolio entirely screened for mission alignment and that meets a series of "No Buy Guidelines" that address negative environmental and social impacts. The $10 million below-market impact investment fund is divided into three pools with varying risk profiles: investment fund managers (least risk), direct investments (moderate risk), and angel investments (highest risk).

SWIFT FOUNDATION, SANTA BARBARA, CA *continued*

PROCESS: RSF shared a prospectus and one-pager about the fund, followed up with examples of projects that had received loans, and drafted the investment agreement. The Swift Foundation conducted due diligence on RSF's team and track record and reviewed the pipeline of underlying borrowers to ensure their businesses were aligned with the foundation's mission and values. After agreeing to terms, the Swift Foundation transferred funds to RSF. The lending team at RSF acts as the steward of the PRI investment, providing due diligence, servicing the loan, and selecting organizations with the best mission and fit for the fund—all things it is well equipped to do given its staff size and expertise. RSF sends investors quarterly reports about the fund activity.

PARTNERS INVOLVED IN INVESTMENT: RSF Social Finance

PROJECTED IMPACT: The foundation earns 1 percent interest, which is paid quarterly. The return of principal will happen at the note's maturity. The funds provide loans of $50,000 or more to nonprofit and for-profit social enterprises that address key issues in food production, food access, value-added processing, distribution, retail, and waste management. Ten organizations have received loans totaling $1.8 million with 12 more organizations in the pipeline. RSF PRI Fund borrowers positively contribute to healthy ecological systems, urban and rural economic development, safe and equitable labor conditions, and increased access to healthy food in underserved areas.

ON-THE-GROUND INSIGHTS:

Form partnerships. Foundations with no or limited staff can achieve impact investing goals by working with firms like RSF Social Finance, which has in-house expertise and a well-articulated mission to source, underwrite, service, and monitor loans that support mission-driven organizations that would not otherwise be able to access credit at these low rates.

Consider opportunities to deploy capital in ways uniquely suited to private foundations. Many of the organizations receiving loans through the RSF PRI fund are early stage and not yet able to receive traditional bank loans. PRI funds like this one allow foundations to provide much-needed capital while making recoverable investments from their 5 percent annual payout distributions.

SWIFT FOUNDATION, SANTA BARBARA, CA *continued*

Consider the benefits of combining investment and grant funding. Swift made a matching grant of $50,000 to RSF in order to support its Local Initiatives Fund, a pooled philanthropic fund, to provide loan guarantees and other credit enhancements as well as strategic grants to support technical assistance, capacity building, land preservation, and other resources necessary to create and sustain regional food systems. The fund aims to educate donors on how to use an array of investment vehicles to strengthen the investment-readiness of emerging food and agriculture enterprises.

"FROM THE RSF PERSPECTIVE, THE REASON THIS FUND IS IMPORTANT TO US IS THAT WE HAVE LEARNED IN OUR YEARS OF EXPERIENCE IN THE FINANCING FIELD THAT FOOD ENTREPRENEURS ARE IN NEED OF MORE FLEXIBLE, LESS EXPENSIVE CAPITAL IN EARLY STAGES OF GROWTH. THIS FUND ADDRESSES THAT NEED."

—CATHERINE COVINGTON, *Manager of Client Development, RSF*

LINKS

Swift Foundation

RSF PRI Fund

Amplifier Strategies

Blog: RSF Loans Support Workforce Development and Food Security

Article: It's About Reclaiming Markets

Read more about this case example on Mission Investors Exchange's website.

TRIPLE EEE FOUNDATION, DEERFIELD, IL

INVESTMENT SUMMARY

Investee:	Various Investment-Grade Collateralized Mortgage Obligations (CMOs)
Asset Class:	Equity-Like Debt
Investment Amount:	$250,000
Issue Area:	Community & Economic Development; Housing
Date of Investment:	Various times during 2008 and 2009
Projected Exit:	Varied from 2010 to 2016
Financial Return Goal:	Market Rate

The Triple EEE Foundation was founded in 1993 and focuses on opportunities that build people's esteem. While it makes grants nationwide and internationally, it primarily concentrates its giving in the Chicago area. In addition to grant-making activities, the Triple EEE Foundation engages in impact investments and plays an active advocacy role nationwide to increase education and awareness for impact investing among foundations.

Misuse of collateralized mortgage obligations (CMOs) is generally cited as one source of the Great Recession of 2008. For this reason, at the time of purchase many investors (including institutional investors) wanted no part of CMOs and were selling their current holdings at prices far below perceived value, yielding substantial current interest and returns to maturity. This was true even though the CMOs were rated investment grade by the rating agencies and therefore were high grade in nature. Thus, the CMOs met the risk/reward financial requirements of the Triple EEE Foundation's investment policy statement.

TRIPLE EEE FOUNDATION, DEERFIELD, IL *continued*

Upon analysis, the CMOs also met the impact investing requirements of the investment policy statement. Because the market for CMOs was weak, the foundation believed that any investment in CMOs (however small) would help support the financial backbone of the housing market and indirectly help to prevent foreclosures. Additionally, many CMOs were covered by the federal government's Home Affordable Modification Program. Under that program, holders of certain CMOs had to vote on whether renegotiation of mortgages held by the CMO would be allowed to prevent foreclosure. EEE always voted for renegotiation of mortgages. The foundation believed that making an investment that helped to support the housing market and reduce foreclosures was fully in line with its goal of helping people's self-esteem.

PROCESS: The foundation's investment advisor recommended the investment as meeting the foundation's financial and impact investing goals.

PARTNERS INVOLVED IN INVESTMENT: None

FINANCIAL AND SOCIAL IMPACT: The foundation was able to make a safe, lucrative financial investment yielding annual returns in excess of 14 percent at a time when the markets were generally in turmoil. The foundation was able to use its endowment funds in a low-risk way to support the mortgage market and the renegotiation of mortgages, so that fewer people were forced into foreclosure and out of their homes.

ON-THE-GROUND INSIGHTS:

Take advantage of opportunities to engage and educate financial institutions and advisors when appropriate. Triple EEE Foundation had numerous conversations with financial institutions to get them to see mortgage renegotiations as a win-win that was financially in the best interest of the institution and good for people who were at risk of foreclosure.

LINKS

Triple EEE Foundation IPS

Article: Embracing Unique Investments

TONY R. WELLS FOUNDATION, COLUMBUS, OH

INVESTMENT SUMMARY

Investee:	Citra
Asset Class:	Private Equity
Investment Amount:	$239,000
Impact Sector(s):	Employment & Job Related; Health Care
Date of Investment:	2013
Projected Exit:	Ongoing sharing of profits
Financial Return Goal:	Below Market Rate

The Tony R. Wells Foundation's involvement with an innovative web app called Citra has proven to be a win-win arrangement, especially for children with autism or Down syndrome.

The Tony R. Wells Foundation was founded in 2001 after Tony and Dana Wells sold their information technology training and education business, so they are quite comfortable hiring and managing technology resources.

Citra, meanwhile, is a cost-effective app that can operate on multiple devices and stores everything in the cloud, allowing parents, teachers, and therapists to share lesson plans and post confidential notes to each other.

Individuals with Down syndrome, autism, and other speech impairments often use an augmentative and alternative communication method such as sign language, picture cards, or electronic devices that convert text and images to speech. Consistency is vital to children with

TONY R. WELLS FOUNDATION, COLUMBUS, OH *continued*

special needs. Switching between different sets that use different pictures for the same item can be confusing to the child and make it hard to learn and effectively communicate.

With the Citra app's consistency and shared knowledge, the child is able to learn more quickly.

The synergy between the foundation and Citra was further enhanced by the foundation's commitment to improving the lives of children with autism and Down syndrome.

This was an ideal opportunity for a foundation to invest in, as the market was too small to interest traditional investors.

The foundation created a separate joint venture with the Columbus Speech and Hearing Center, which led the development of the Citra app. The two parties negotiated a reasonable split of equity. The foundation would provide funding through a PRI.

PROCESS: After validating the initial prototype with the therapists at the Columbus Speech and Hearing Center, the management team and staff of the Tony R. Wells Foundation started to explore the benefits of creating a social enterprise. Market analysis determined the merits of marketing Citra to other speech and hearing centers, special needs teachers, and parents. The board of the Columbus Speech and Hearing Center spent four months debating the merits of being a long-term equity partner in the joint venture versus receiving royalties for their contribution of intellectual know-how. It sought legal and accounting advice, which determined it would need to pay unrelated business income tax on all future income from the sale of the Citra app. The final recommendation and approval of the board was to share in an equity position with the Wells Foundation and receive maximum potential profit.

PARTNERS INVOLVED IN INVESTMENT: Ohio State University was a significant contributor of resources with the development of Citra but is not an investor or equity owner.

PROJECTED IMPACT: Citra L3C completed its second clinical test with four speech and hearing centers, one school system, and numerous parents in late 2014. In spring of 2015 Citra formally launched its marketing efforts including a new website (www.citraapp.com) and is now targeting over 220,000 special needs teachers and speech language pathologists across the United States.

ON-THE-GROUND INSIGHTS:

The key to successful technology initiatives is good project management. The foundation leveraged an existing relationship with an information technology firm to develop Citra at 50 percent of the estimated cost by introducing it as a corporate social responsibility project and by being willing to accept a longer development time. Creating and organizing a formal clinical testing protocol to determine effectiveness in children delayed the launch by six months. While developing the solution over a two-year period, advances in children with special needs using tablets increased acceptance but also competition.

LINKS

Citra L3C

Tony R. Wells Foundation

Read more about this case example on Mission Investors Exchange's website.

APPENDICES

APPENDIX A: CONTRIBUTORS

JENNIFER BARKSDALE is the finance officer at the Mary Reynolds Babcock Foundation. She is responsible for maintaining the financial integrity of the foundation and oversees human resources functions. She is a member of the North Carolina Association of CPAs and the American Institute of CPAs. Prior to coming to the foundation, Jennifer was the finance officer at Action for Children North Carolina.

PETER BERLINER serves a senior advisor to Mission Investors Exchange. He was managing director of the PRI Makers Network and Mission Investors Exchange from 2009 to 2015. He has extensive experience in philanthropy, legislative advocacy, and nonprofit leadership and management. He has served on numerous boards including those of Philanthropy Northwest, 501 Commons, and Thrive by Five Washington. He previously worked as a senior program officer at the Paul G. Allen Foundation, and executive director of the Children's Alliance and Youth Eastside Services. Peter has master's degrees from the University of Puget Sound and Oberlin College, and a BA from Earlham College.

LUCY CANTWELL is the executive director of the New Belgium Family Foundation, which seeks to honor the regenerative potential of business through meaningful investing, philanthropy, and advocacy. Lucy manages both the philanthropic and direct investment portfolios, with the goal of increasing renewable energy, sustainable agriculture, use of alternative modes of transportation, and youth engagement in the United States. Lucy is also working with advisors to ensure that the foundation's corpus is 100 percent invested for positive impact. Prior to the New Belgium Family Foundation, Lucy worked in nonprofits and art galleries in San Francisco, Chicago, and New York, and graduated with honors in art history from Vassar College.

ROSALIE SHEEHY CATES is a community investment consultant at the Giving Practice. She helps impact investors find and make deals that create affordable housing, community facilities, local food systems, and small businesses. Rosalie has also managed a number of national initiatives, working to build new investment tools, platforms, and funds. She was with the Montana Community Development Corporation from 1989 to 2010, including 14 years as CEO. Prior to that, Rosalie lived in rural Wisconsin where she was an organizer for family farms and sustainable agriculture. She also helped with her family's small cattle operation. She lives with her family in Missoula, Montana.

VICTOR DE LUCA is the president and CEO of the Jessie Smith Noyes Foundation. Vic joined the foundation in 1991 as a program officer and became its president in 2000. Vic was a board member of Philanthropy New York and served on the Council on Foundations Committee on Family Philanthropy. He is a board member of the Environmental Grantmakers Association. He was a board member and officer of the Funders Network for Population, Reproductive Health, and Rights and on the advisory board for the Diversity in Philanthropy Project. A former VISTA volunteer, Vic spent 15 years as director of the Ironbound Community Corporation, a Newark community-based organization. He is a founding and current board member of New Jersey Citizen Action. Vic is serving his fifth, three-year term on the Maplewood (New Jersey) Township Committee, currently serving his eighth year as mayor.

JESSE FINK is co-founder and chairman of MissionPoint Capital and co-founder of the Betsy and Jesse Fink Foundation, which focuses on catalytic environmental and educational grant making. He is also president and chief executive officer of Marshall Street Management, a family office established in 1999 that has leveraged its investment expertise to develop a mission-driven, but return-focused, investment strategy. Jesse began his business career as a forest and land manager for Georgia-Pacific. After attending business school, he continued his career in marketing and operations management as well as business development, first with Citicorp and then with CUC International. Jesse then joined entrepreneur Jay Walker as COO of Walker Digital Inc., a leading inventor and developer of business method solutions. He was the founding chief operating officer of priceline.com, running its operations from inception through its initial public offering.

PAM FUJITA-YUHAS is foundation director for the NW Fund for the Environment where she has co-managed its operations and grant-making programs with Zoe Rothchild for the past 16 years. A private foundation based in Seattle, Washington, the NW Fund provides grants to support conservation and environmental protection in Washington state. In addition to her duties at the fund, Pam has coordinated the Puget Sound Funders group of the NW Environmental Grantmakers Association and served on the grant committees of the Social Justice Fund and the Seattle Foundation. Pam has BA in government from Pomona College and a MPA in nonprofit management from the Evans School of Public Affairs at the University of Washington.

STEPHANIE FUERSTNER GILLIS leads Arabella Advisors' philanthropy management line of business, focused on services for families and individual donors. She joined Arabella as a part of the firm's acquisition of Blueprint Research + Design Inc., where she was the COO and a senior consultant, and has been working with philanthropy clients for more than 15 years. She has an extensive background in evaluation, program strategy, and program design, as well as substantive expertise in youth development, education, arts education, organizational capacity building, family foundations, and philanthropy, among other areas.

TOMER INBAR is an attorney at Patterson Belknap Webb & Tyler LLP. He represents US and international tax-exempt organizations in a range of structural and operating matters, including tax and corporate issues, regulatory compliance, governance, operational policies and procedures, audits, unrelated business income tax issues, and executive compensation. He advises on an array of corporate transactions, such as joint ventures and the establishment of for-profit subsidiaries, corporate restructuring, private equity fund formation, and licensing and service arrangements. His clients include public charities, private foundations, colleges and universities, economic development corporations, and cultural institutions.

FLOYD KEENE is president and founder of the Triple EEE Foundation near Chicago. He received his economics and law degrees at the University of Wisconsin, where he was Phi Beta Kappa. Prior to running his foundation, he was a senior executive at Ameritech, a Fortune 500 company. He has served as president of Youth Guidance, a large Chicago social service agency, whose Becoming a Man program has been visited and cited for excellence by President Obama. Currently on the board of Exponent Philanthropy, Floyd advocates nationwide for impact investing. His foundation's assets are currently 100 percent impact invested.

MICHAEL LENT is a founding principal and the CIO of Veris Wealth Partners. For 20 years, he's been delivering financial planning and investment consulting services to families, family offices, and foundations. The Calvert Foundation has recognized Michael for his advocacy of blended-value community investing and he is regularly cited by major media outlets on matters pertaining to sustainable investing. Prior to Veris, he co-founded the New York office of Progressive Asset Management, the first national full-service broker/dealer to focus on socially responsible investing. Michael is the treasurer and a trustee of the Edward W. Hazen Foundation, and is the past chair of the board of directors of US SIF, the Forum for Sustainable and Responsible Investment. He is also a member of the Investment Management Consultants Association and a certified investment management analyst.

SANDRA MIKUSH is the interim executive director of the Mary Reynolds Babcock Foundation. She provides leadership in developing a strategic framework and new initiatives for mission accomplishment, recommends to the board and implements programs and policies, and manages its overall operations. Sandra also directs the foundation's efforts in impact investing, including program-related investments.

CYNTHIA MULLER leads Arabella Advisors' impact investing practice. She helps its individual and institutional clients understand the field of impact investing, develop strategies, and structure investments to accomplish their social and environmental goals. Her extensive background in social enterprise and impact investing includes connecting public policy, programs, and capital for emerging social innovations to increase economic opportunities for under-served and marginalized communities. Prior to joining Arabella Advisors, Cynthia built a wealth of experience working on strategic initiatives in mission-driven organizations focused on issues including community health, affordable housing, and economic development. As director of strategic investments at NCB Capital Impact, a national community development financial institution, she managed over $80 million in grants and impact investments. She has also served on the board of the CIRI Foundation and volunteered for the Alaska Marketplace.

JENNIFER PRYCE arrived at Calvert Foundation in 2009 and has risen from the position of US portfolio manager to vice president of strategic initiatives, then chief strategy officer, and now president and CEO. In her role as chief strategy officer, she led the organization's Strategic Initiatives team and its work on raising capital, developing new products and initiatives, and marketing and communications. Jenn has also overseen Calvert Foundation's wholly owned Community Investment Partners subsidiary, which offers fund and asset management services for institutional clients. Under her leadership, the Strategic Initiatives team launched the Women Investing in Women Initiative, which is the only retail impact investing product available to US residents that is focused on supporting organizations empowering women. Jenn worked with Nonprofit Finance Fund as the director of the Washington metro area office, as well as Wall Street firms Neuberger Berman and Morgan Stanley.

LUTHER M. RAGIN JR. is the former president and chief executive officer of the Global Impact Investing Network (GIIN). Through his leadership, the GIIN was able to build critical infrastructure and support activities, education, and research that help accelerate the development of more robust impact investing industry. Prior to joining the GIIN, Luther served as vice president for investments at F. B. Heron Foundation, where he oversaw the foundation's endowment, building a portfolio of more than $260 million and steadily increasing the impact investing allocation to more than 40 percent. Prior to joining the foundation, Luther was the chief financial officer of the National Community Capital Association, a trade association of community development financial institutions that provides access to capital in low-income communities. Luther spent eight years as chief financial officer of Earl G. Graves Ltd., and seven years with Chase Manhattan Bank, including three years as vice president of syndications/assets sales for the North American Corporate Finance Sector.

ZOE ROTHCHILD is foundation director for the NW Fund for the Environment, where she has co-managed its operations and grant-making programs with Pam Fujita-Yuhas for the past 16 years. In addition to her duties at the fund, Zoe has served on the grants committee for the Women's Funding Alliance, and is president of the Vashon Maury Island Land Trust.

KATE STARR is founder of Starria and former vice president of capital deployment for the F. B. Heron Foundation. Kate left the foundation after 14 years of experience in impact investing. In partnership with the board and staff, she led the development of the investment strategy and policy that called for deploying 100 percent of Heron's financial assets toward its social mission. She managed the approximately $300 million portfolio across in variety of businesses, markets, and financial instruments, including grants to nonprofit organizations. Kate is now working independently with other foundations, investors, and firms that are interested in building a practice of impact investing across a portfolio. She is a member of the CFA Institute, New York Society of Security Analysts, and Mission Investors Exchange.

DOUG BITONTI STEWART has dedicated his career to philanthropy. Doug has served organizations such as Michigan State University, Michigan Nonprofit Management Institute, Botsford General Hospital, the Arthritis Foundation, and Children's Hospital of Michigan. Most recently, Doug worked at the University of Michigan Health System as the director of development for children's and women's health. In early 2007, Doug became the first executive director of the Max M. & Marjorie S. Fisher Foundation. In this position, Doug helps the Fisher family further its philanthropic legacy by working with partners making the most meaningful impact to strengthen and empower children and families in need.

CATHERINE TONER is an associate director at Arabella Advisors. She conducts in-depth research and analysis and drafts reports and other communications for a range of institutional, family, and corporate impact investing clients. She conducts due diligence, develops thought leadership content, and manages internal and external projects. Catherine holds a BA with honors in peace and conflict studies from Colgate University.

CHRISTA VELASQUEZ is a recognized leader in the impact investing field. She advises foundations on impact investing strategies and program design and works with impact investment fund managers on all aspects of investment programs to ensure that both financial and social objectives are achieved. In addition to consulting, Christa teaches courses on the business of nonprofits and the evolving social sector at the University of Chicago. As the director of social investments at the Annie E. Casey Foundation, she was responsible for the foundation's $125 million social investment program. She also held a fellowship at the Initiative for Responsible Investment at the Hauser Center for Nonprofit Organizations at Harvard University. Christa helped develop the impact investing field as a co-founder of the More for Mission Campaign and the PRI Makers Network, now Mission Investors Exchange.

PATRICK WESTERLUND is the education and impact investment consultant at the Tony R. Wells Foundation. He leads the foundation's impact investing executive education program for nonprofit leaders and social entrepreneurs. Patrick also works on the investment team, providing advisory services related to social enterprise development and conducting due diligence on impact investment opportunities. Additionally, he collaborates with other foundation staff members on the development of seed stage social ventures within the portfolio of the Tony R. Wells Foundation. Prior to working for the foundation, Patrick worked for Desco Capital, a Columbus-based private equity firm. He is a graduate of Ohio State University where he specialized in finance, consulted for Columbus nonprofit organizations, and led the planning team for the Alleviating Poverty Through Entrepreneurship Summit.

DAVID WOOD has been the director of the Initiative for Responsible Investment (IRI) at the Hauser Institute for Civil Society at Harvard University since its founding in 2005. David directs the IRI's research and field-building work on responsible investment across asset classes, and currently manages projects on impact investing by foundations, IRI strategy with pension fund trustees, impact investing by foundations, the changing landscape of community investing in the United States, and impact investing and public policy. Prior to joining the IRI he taught the history of ethics, including the history of economic thought and human rights, at Boston University. He holds a PhD in history from the Johns Hopkins University.

APPENDIX B: RESOURCES

ORGANIZATIONS

Arabella Advisors

Confluence Philanthropy

Council on Foundations

CREO

Divest/Invest

Exponent Philanthropy

Global Impact Investing Network (GIIN)

ImpactSpace

Initiative for Responsible Investment

Mission Investors Exchange

National Federation of Community Development Credit Unions

Toniic

Transform Finance

TOOLS AND REFERENCES

Investor Networks

Aspen Network of Development Entrepreneurs (ANDE)

The Forum for Sustainable and Responsible Investment

Investors' Circle

Social Finance US

Village Capital

Databases

Aeris

Bank Impact

ImpactBase

Opportunity Finance Network

Reference Materials

CapNexus

Certificate of Deposit Account Registry Service (CDARS)

CDFI Fund, US Department of Treasury

IRS Definition of Program-Related Investments

Mission Investors Exchange – Glossary of Terms

RFP Samples

Impact Reporting and Investment Standards (IRIS)

TRAININGS

Learn Foundation Law: Program-Related Investment Rules for Private Foundations

Mission Investors Exchange: Mission Investing Trainings and Events

Exponent Philanthropy: Trainings and Events

ARTICLES AND REPORTS

General Information

Impact Investing: From Cutting Edge to Crucial Tool, by Cynthia Muller, Arabella Advisors

Advice and How-To

How Wealth Advisors Can Facilitate Impact Investments, by Cynthia Muller, Arabella Advisors

Total Portfolio Activation: A Framework for Creating Social and Environmental Impact across Asset Classes, by Joshua Humphreys, Ann Solomon, and Christi Electris, Tellus Institute

Evaluation and Monitoring

Lessons from a Dozen Years of Program-Related Investing, by Brinda Ganguly and Nancy McPherson, the Rockefeller Foundation, and Cynthia Muller and Whitney Mayer, Arabella Advisors

Meeting the Challenge of Measuring Impact Investments, by Whitney Mayer, Arabella Advisors

APPENDIX C: TOOLS

1. FINANCIAL STATEMENTS AND TAX TREATMENT FOR PROGRAM-RELATED INVESTMENTS

By ROSALIE SHEEHY CATES, THE GIVING PRACTICE

Many foundation staff members understand the factors that qualify an investment as a program-related investment (PRI). What may be less clear is how a PRI will affect the foundation's financial statements and tax reporting (Form 990-PF).

The chart below compares accounting scenarios for a PRI and a corpus investment. It begins with an accounting treatment for the initial investment, and it shows how repayments of principal and interest are booked, and how those repayments affect the financial statements and minimum distribution requirement (MDR). The chart also outlines the treatment of losses on investments. The last section of the chart alerts foundation staff members to several ethical standards that may or may not restrict their investment choices under the PRI or corpus investment option.

The main difference between a PRI and a corpus investment is that the PRI directly affects a foundation's MDR, as it is an investment made for charitable purposes. The PRI investment amount will be directly credited toward the MDR in the year it is made. After that, principal repayments increase the MDR in the year they are received. This is an important consideration in structuring PRI investment terms. For instance, if an investment is structured so that the entire principal is repaid at term, the foundation will have a "bump" in MDR in that year. If the principal payments are amortized for a steady repayment over the life of the investment, the MDR effect is smoothed. One option isn't intrinsically better than the other; the foundation should simply plan its giving and investing with a clear picture of what to expect in the MDR calculation.

<table>
<tr><th colspan="3">Accounting implications of PRI vs. Corpus Investments</th></tr>
<tr><th rowspan="2"></th><th colspan="2">Investment method:</th></tr>
<tr><th>PRI</th><th>Corpus</th></tr>
<tr><td rowspan="2">On the balance sheet</td><td>Loans create an asset called PRI or Note Receivable.</td><td>Loans create an asset called PRI or Note Receivable.</td></tr>
<tr><td>Equity can create an asset called PRI or it can be recorded as “other investment.”</td><td>Equity can create an asset called PRI or it can be recorded as “other investment.”</td></tr>
<tr><td>Minimum Distribution Requirement</td><td>MDR is credited, as though a grant were made.</td><td>MDR is not affected.</td></tr>
<tr><td rowspan="2">As principal is repaid</td><td colspan="2">The asset decreases.</td></tr>
<tr><td>Every year that the principal is paid, MDR increases by the entire amount of principal payments received.</td><td>MDR is not directly affected.</td></tr>
<tr><td rowspan="2">As interest or other financial return is received</td><td colspan="2">For loans: interest income is recorded.</td></tr>
<tr><td colspan="2">For equity: dividends, realized or unrealized gains, or other investment income is recorded.</td></tr>
<tr><td>Interest income is taxable</td><td colspan="2">Interest income is usually taxable at the 1-2% federal excise rate. Rarely, the income is considered unearned business income and is taxed at corporate or trust tax rates.</td></tr>
</table>

Accounting implications of PRI vs. Corpus Investments

	Investment method:	
	PRI	**Corpus**
If the investment is lost	A loan loss is taken as bad debt expense, a decrease in a balance sheet allowance, or both.	
	An equity loss is taken as a loss on investments on the balance sheet.	
	The asset disappears from the balance sheet.	
	MDR is not affected because the amount was already credited when the investment was made.	MDR is not directly affected.
Other restrictions may apply		
Jeopardizing investments	No	Yes
Excess business holdings	No	Yes
Self-dealing	Yes	Yes
Expenditure responsibility	Yes	No

2. A GUIDE TO THE FIDUCIARY DUTIES OF FOUNDATION DIRECTORS RELATED TO IMPACT INVESTING

By TOMER INBAR, PATTERSON BELKNAP WEBB & TYLER LLP

What are the relevant laws and legal frameworks for impact investing?

Directors and officers of charitable corporations are subject to basic fiduciary obligations in connection with their governance and oversight roles—i.e., the duties of care, loyalty, and obedience—which are also, of course, applicable to investment decision making. The fiduciary duties of trustees of charitable trusts are similar, but in some cases impose stricter obligations, particularly when it comes to the duty of loyalty. In addition, most states have laws relating to the prudent investment of charitable funds, modeled on the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the 1994 Uniform Prudent Investor Act (UPIA). UPMIFA applies to charitable corporations; UPIA applies to charitable trusts. A charity's internal governance documents and policies—such as its charter, trust instrument or certificate of incorporation, bylaws, investment policy, or conflicts of interest policy—may also contain relevant guidance or requirements. Finally, donor gift instruments may contain restrictions relating to the investment of the gift's income or principal.

What are my fiduciary duties of care, loyalty, and obedience?

The duty of care requires the director of a charitable corporation to perform his or her duties in good faith and with such care as an ordinarily prudent person would exercise in a similar position under similar circumstances. A director must be diligent and informed and must exercise honest and unbiased business judgment in making decisions on behalf of the charity. Directors can delegate certain responsibilities but must stay informed and involved.

The duty of loyalty requires a director to make decisions for the benefit of the charity with undivided commitment to the charity and without regard to his or her personal interest. This duty primarily relates to corporate opportunity (i.e., diverting a corporate business opportunity for personal gain), confidentiality, and conflicts of interest.

The duty of obedience requires a director to act with fidelity to the corporation's mission, its governing rules, documents, and policies, duly adopted acts of the board, and applicable laws. It also forbids the director to enter into ultra vires (beyond legal capacity) acts.

As noted, similar fiduciary duties generally apply to trustees of charitable trusts, though a trustee's duties may, in fact, be more restrictive, particularly in the context of the duty of loyalty.

What are my specific fiduciary duties relating to the investing of charitable funds under UPMIFA and UPIA?

UPMIFA and UPIA provide guidance and authority for those entrusted with the management and investment of charitable funds. They also impose duties intended to protect charities and donors (UPMIFA) and trust beneficiaries (UPIA).

Specifically, UPMIFA imposes a duty on those responsible for investing an institution's charitable funds to act as an "ordinarily prudent person in a like position under similar circumstances." UPMIFA also provides that an institution must make management and investment decisions in the context of the portfolio as a whole as part of an overall strategy that takes into consideration risk and return objectives appropriate to the institution. An institution must diversify its investments unless it prudently determines that, because of special circumstances, the purposes of the fund are better served without diversification. The management and investment function may be delegated to committees, officers, employees, or external agents (with oversight and monitoring in the case of external agents). State laws enacting UPMIFA may contain variations on these general principles.

UPMIFA also requires an institution to consider its purposes and the purposes of the fund in which it is investing. Subject to the intent of a donor as expressed in a gift instrument, an institution must also consider, if relevant: (1) general economic conditions; (2) the possible effect of inflation or deflation; (3) the expected tax consequences, if any, of investment decisions or strategies; (4) the role that each investment or course of action plays within the overall investment portfolio of the fund; (5) the expected total return from income and the appreciation of investments; (6) other resources of the institution; (7) the needs of the institution and the fund to make distributions and to preserve capital; and (8) an asset's special relationship or special value, if any, to the purposes of the institution.

The text of UPMIFA does not squarely address MRIs, but practitioners generally agree that it does not prohibit such investments, provided that decision makers exercise their duties of care and consider the factors enumerated above. Factor 8 in particular suggests that MRIs can comply with UPMIFA and is of particular importance in this regard. In addition, UPMIFA contains a carve-out for program-related assets (i.e., those held primarily to accomplish a charitable purpose of the institution and not primarily for investment). This exclusion will generally pick up PRIs.

The principles of UPIA are similar to those of UPMIFA, as the latter draws its language from the former. UPIA also contains Factor 8, which provides a basis for mission-related investment of trust funds in compliance with the statute. However, UPIA does not contain the exclusion for program-related assets. This should not affect the ability of a private foundation to make PRIs, which are, in essence, treated more like grants than investments.

So far we've discussed only state law. How does federal law impact my fiduciary obligations in this area?

Sections 4940 through 4945 of the Internal Revenue Code (the Code) contain specific excise tax rules governing the behavior of private foundations. Of particular relevance to MRIs are the jeopardizing investments rules under Section 4944 and the excess business holding rules of Section 4943. These rules are not applicable to public charities or other tax-exempt entities, such as social welfare organizations or business leagues.

Under Section 4944, an investment will be considered "jeopardizing" if it was not made with ordinary business care and prudence. In exercising that standard, a director should consider the risk/return ratio and the need for diversification, while taking into account the portfolio as a whole and considering the short- and long-term financial needs of the organization. There are no per se jeopardizing investments under the Code, but under the (antiquated) US Treasury Regulations, certain investments may be more closely scrutinized (e.g., margin trades, futures, short selling, puts, calls, and straddles). Ultimately, the determination of whether an investment is "jeopardizing" is made on a case-by-case analysis and depends on the facts and circumstances at the time the investment decision was made.

PRIs are an explicit exception to the Code's rules on jeopardizing investments and are defined as "investments, the primary purpose of which is to accomplish one or more of the [charity's exempt purposes], and no significant purpose of which is the production of income or the appreciation of property."

Thus, an MRI (other than a PRI) must satisfy the Section 4944 "prudence" requirement as well.

While not directly related to the fiduciary duties of private foundation managers, the excess business holdings rules under Section 4943 prohibit a private foundation, together with all disqualified persons, from owning more than 20 percent of a business enterprise (35 percent if effective control of the business is in the hands of one or more persons who are not disqualified persons). These rules do not apply if the foundation owns less than 2 percent of a business. They also do not apply to ownership interests in PRIs or "functionally related businesses."

Practically speaking, what does all this mean?

There is no one road map for MRIs or for achieving charitable goals/social impact using investment structures. We often think of a continuum of activities with traditional grants on one end and purely profit-seeking investments on the other. MRIs are somewhere in between (generally speaking, PRIs are closer to the "grant" side and MRIs are closer to the profit-seeking end). How exactly an organization approaches and positions MRI within this continuum depends on many factors, including the organization's mission; its financial, investment, and program goals; its degree of expertise and comfort with MRIs (and PRIs); the availability of good investment products and the resources to analyze and assess the efficacy of such investments; its risk tolerance (and ability to effectively manage risk); and how a specific investment balances these factors.

Ultimately, a charity's assets must be invested prudently (broadly and particularly defined), but that does not preclude aligning investment strategies with mission goals or constructing a varied (if overall prudent) investment portfolio that uses different strategies and approaches to mission and financial return across asset classes. Such a portfolio can be an effective tool to complement direct program activities, grant making, or a PRI program.

About Arabella Advisors

Arabella Advisors works with foundations, philanthropists, corporations, and investors who are serious about impact and want to know their resources create meaningful change. We help our clients imagine what's possible, design the most effective strategies, learn what works best, and do the work necessary to realize their visions. To learn more about us, visit: **www.arabellaadvisors.com**.

About Exponent Philanthropy

Exponent Philanthropy amplifies and celebrates the vital work of donors, trustees, and philanthropic professionals who choose to give big while staying small, working with few or no staff to make the most of their resources. As a vibrant membership organization with nearly 2,200 members, it provides resources and valuable connections to help funders make the most of the minutes they have and the dollars they give. **www.exponentphilanthropy.org**

About Mission Investors Exchange

Mission Investors Exchange is where philanthropic innovators share ideas, tools, and experiences to increase the impact of their capital. As a learning hub for foundations interested in increasing their impact with investment dollars, it offers members extensive educational resources on the various aspects of mission investing. Its programming extends to conferences, institutes, webinars, and mission cafés and pulls together experts across social sectors that are of most value to the complex issues facing its members. **www.missioninvestors.org**

Editor: Molly Lyons, Arabella Advisors
Designer: Asha Hossain Design Inc.
www.missioninvestors.org/guideforsmallfoundations