

Program-Related Investment Flexible Tool in Focus

Social Investing:

Financial services industry defines as investing that incorporates social or environmental criteria. Sometimes known as **ESG** for incorporating **E**nvironmental, **S**ocial and **G**overnance criteria.

Proactive Investing:

Selecting generally privately held investments in any asset class for expected social as well as financial return. **Includes most foundation mission investing (PRI/MRI).**

Shareholder Activism:

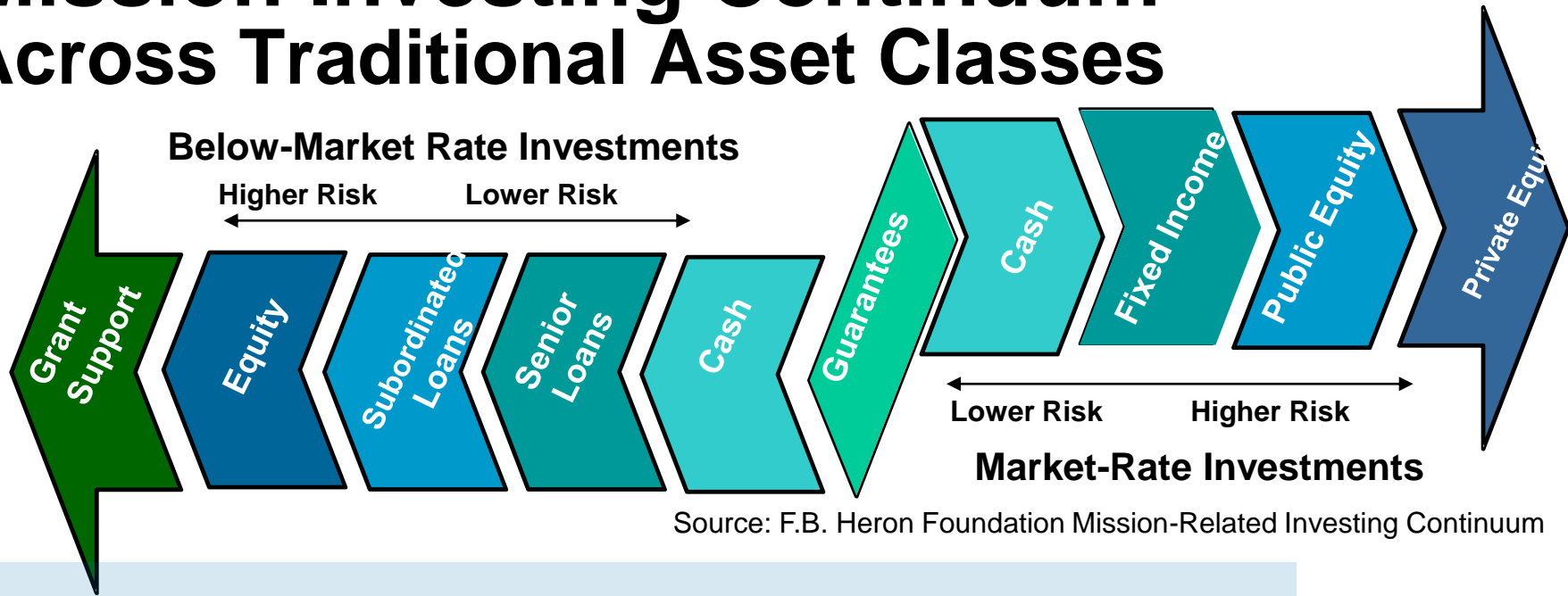
Voting proxies and engaging management of generally traded companies to change corporate behavior.

Screening:

Avoiding generally traded companies on perceived social harm--or selecting on perceived benefit.



Mission Investing Continuum Across Traditional Asset Classes



Program-Related Investment (PRI): private foundation investment of any asset class in any type of organization for which:

1. **Primary purpose** is to accomplish one or more of foundation's charitable, religious, scientific, literary, educational, other exempt purposes.
2. **No significant purpose** is production of income or appreciation of property.
3. **No purpose** is to lobby or accomplish political purposes.

Source: Tax Reform Act of 1969



PRI Financial & Legal Highlights

Funding

- PRIs can be counted toward private foundation's 5% distribution.
- Some foundations use endowment assets and/or set aside revolving PRI pools over the 5% annual payout.

Income

- Counted as general income.

Principal

- Not counted in private foundation's assets for payout calculation while outstanding.
- Repaid principal must be recycled into new PRIs or grants in the year received.

Default

- Treated as a grant for accounting purposes.
- Rare historically with PRIs sourced, underwritten and managed with a view to repayment.

Jeopardizing Investment

- Qualifying PRIs excused from jeopardizing investment rules.

Legal Opinion

- Range of practice; some foundations obtain for every PRI. Excellent specialized counsel available.



Rationale



Foundation

Impact (different type of Growth Capital), Size (different level of support), Recyclable, Leverage, Payout, Partnership, Alignment, Learning



Investee

Capacity/Leverage, Managerial Discipline, Scale and Sustainability, Credibility, Partnership



Society & Market

Market Development / Innovation Catalyst, Leveraging Capital Markets, Policy Catalyst, Efficient Use of Charitable Resources, Accountability in Social Sector, Sustainable Organizations



Marketplace: Supply & Demand

Sector	Investment Opportunities: Intermediary, Direct, Nonprofit & For-Profit Entities	Current Investors
Community Development	LISC, Enterprise, ShoreBank, Self-Help, Bridge Housing, Market Creek Plaza, Cleveland Theaters	Ford, MacArthur, Heron, Cleveland
Education	IFF, Indianapolis Charter School Credit Enhancement Fund, Council for Adult & Experiential Learning, Greater Newark Charter School, Howard U. Press	Prudential, Casey, Ford, MacArthur
Healthcare	NCB Capital impact, NFF, Community Health Facilities Fund, Working Today, West Alabama Health Services Inc., AIDS Housing of Washington	RWJ, Ford, CA Community, Kresge
Human Services	IFF, LIIF, NFF, ShoreBank, Eliza Bryant Center (eldercare), Pioneer Human Services	RWJ, Ford, Rockefeller
Environment	Trust for Public Land, Sea Change Fund, Enterprise Green Building, Wetlands Initiative	Packard, Donnelly, Gund, Ford
Arts & Culture	NFF, Boston Community Capital, Children's Museum of Los Angeles	California Community, Ford



Getting Started

- Initial work defines:
 - Champions(s) to drive process
 - Landscape of Investment Opportunities
 - Mission / Values Fit; Fields of Interest
 - Baseline Assessment: Where are we now?
 - Goals: Where are we going / How do we get there?
 - Relation to grants portfolio
 - Target Investees and Impact
 - Asset Classes; Deal Size; Funding Level and Source
 - Credit Culture: Pricing/Benchmarks, Risk Tolerance, Collections, Positioning; Intermediary v. Direct investing
 - Impact, Innovation, Leverage, Collaboration, Learning
- Initial work also informs PRI Infrastructure:
 - Deal Sourcing/Financial Due Diligence
 - Structuring and Documentation (Legal); Negotiating, Closing
 - Monitoring; Performance Reporting: Financial, Social
 - Compliance
 - Communications

Helpful networks and resources for each stage at www.primakers.net, www.moreformission.org, www.wallstreetwithoutwalls.

