Impact Investing
Understanding the Trend

2010 National Interagency Community
Reinvestment Conference
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Presented by
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Impact Investing Outline

- Definitions
- Motivation
- Marketplace
- Resources
Definitions
Impact Investing is part of the broad Social Investment Market

Social Investing:
Financial services industry defines as investing that incorporates social or environmental criteria. Sometimes known as ESG for incorporating Environmental, Social and Governance criteria.

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

Shareholder Activism:
Voting proxies and engaging management of generally publicly traded companies to change corporate behavior.

Proactive Investing:
Selecting generally privately held investments in any asset class for social + financial return. Includes foundation impact / mission investing (PRI/MRI).
Mission Investing: Proactive financial investments made to (1) further foundation’s mission and (2) recover principal invested or earn financial return.1

Program-Related Investment (PRI):
Tax Code of 1969 defines as 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.

Mission-Related Investment (MRI):
*Term of art.* Generally refers to foundation investment of any asset class in any type of organization that has a market-rate expected return on a risk-adjusted basis. MRI generally refers to investments of the endowment or “other 95%.”

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1 Source: FSG Social impact Advisors, 2007. 2 Source: F.B. Heron Foundation. Recoverable Grants described on page 12.
Definitions: *Alphabet Soup du jour*

- Active investing
- Affirmative investing
- Aligned investing
- Alternative investing
- Blended value investing
- Double (or Triple) bottom line investing (DBL/TBL)
- Community investing, often associated with Community Reinvestment Act (CRA)
- Economically Targeted Investing (ETI)
- Environmental, social, and corporate governance (ESG) investing
- Ethical investing
- Full value investing
- **Impact Investing** (*gaining currency; applies to all institutional investors*)
- Mission-related investing (MRI)
- Mission-based investing
- Mission-driven investing (MDI)
- **Mission investing**
- Program-related investing (PRI)
- Sustainable investing
- Sustainability, mission and social investments (SMSI)
- Social Investing
- Socially responsible investing (SRI)
- Targeted investing

Adapted from Betsy Zeidman, Milken Institute
Impact Investing Motivation:
Conventional Philanthropic Investing Continuum

<table>
<thead>
<tr>
<th>Fund</th>
<th>Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants from Earnings: ~ 5% of assets</td>
<td>Endowment Assets: “the other 95%”</td>
</tr>
</tbody>
</table>

**Primary Motivation:**
- **Fund:** Maximize social return w/ grants funded by at least 5% of assets per year.
- **Invest:** Maximize financial return to fund annual grant payout of at least 5% of assets while preserving endowment.
Motivation

• Challenges:
  ◦ Scale of needs outstrips grant resources
  ◦ Timing of project financing need outstrips grant resources
  ◦ Funding structure does not fit organization or opportunity
  ◦ Alignment concerns: “the other 95%”
  ◦ Fewer dollars for grants in down markets
  ◦ Pressure to grant with up markets or endowment
  ◦ No influence on access to commercial capital for nonprofits and other social enterprises
  ◦ No leverage of vast government and capital markets assets.
Motivation: Leverage

“One of the most effective ways to alleviate, and sometimes even to eliminate, social suffering is therefore to supplement, leverage, or alter the incentives of conventional capital markets. Foundations can achieve this not only by making grants, but also by using their endowments to craft market-based solutions to social problems.”

4 Source: www.gpoaccess.gov/usbudget/
5-6 Source: www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf
7 Source: Estimate, GPS Capital Partners, LLC
Motivation: Alignment

MMT’s Mission-Related Market Rate Investment Strategy
“Maximizing Impact”

Source: Meyer Memorial Trust
Motivation:
Financial First / Impact First

Segments of Impact Investors

Source: Monitor Institute
**Motivation:**
New Philanthropic Investing Continuum

<table>
<thead>
<tr>
<th>Grants</th>
<th>Recoverable Grants</th>
<th>PRIs: Program Related Investments</th>
<th>MRIs: Mission Related Investments</th>
<th>Investments</th>
</tr>
</thead>
</table>

*Primary Motivation: Social Return*

*Primary Motivation: Financial Return.*
Foundation may screen endowment assets and/or vote proxies on holdings for mission alignment.

 Recoverable Grants (RGs) are repaid if pre-determined criteria are met. Used by some foundations for early stage or risky ventures, RGs can be refinanced or “taken-out” into PRIs.
Marketplace: Timeline

- **1790**: Ben Franklin Trust: tradesmen lending--all races, married; $300k grew to $5MM by 1990s.

- **~ 1970**: Ford, Taconic Foundation PRIs (1968)
  - PRI defined in Tax Code of 1969
  - “Socially Responsible Investing” (SRI) movement:
    - Screening of perceived evils (South African disinvestment)
    - Shareholder activism (Sullivan, Ceres principles)
    - “Alternative, community, proactive” investing; early Community Development Financial Institutions (CDFIs)
  - 1977 Federal Community Reinvestment Act for bank lending in low- to moderate income (LMI) areas.

- **2007 - 2009**: Global financial crisis reduces resources, questions traditional market “discipline” and “market-rate.”

- **2010 and beyond**: TBD. Volumes increasing. **Global** market infrastructure including intermediaries and financial and social metrics beginning to take shape.
Marketplace: Supply

- Significant unrealized potential, despite track record: 9
  - 92 foundations, 40 years, $2.3 billion--85% PRIs:
  - 96% repayment on debt through 2006, correcting for outliers;
    75% w/ 0% default.

- Market at an inflection point:
  - $350 - 400 million annual mission investment (< 0.07% assets). 10
  - 16.2% annual volume growth 2001 - 2005 v. 2.9% prior 32 years.
  - Use of intermediaries increasing; 25% of dollars in 2001 - 2005. 11
  - Historically, four leading PRI funders in four US program areas: 12
    - Ford, MacArthur, Packard, Anonymous in Economic Development,
      Housing, Environment, Education.
    - Today, 44% of new volume from smaller foundations.
    - Every PRI investor has different profile based on mission,
      geography, risk/return appetite, experience; some invest
      endowment assets.
    - Economic downturn increasing interest in doing more with less.

9 FSG Social Impact Advisors, 2007. 10 Foundation Center, 2009. 11, 12 ibid., FSG.
Marketplace: Supply

Mission Investing Segmentation by Program  2001 - 2005

Source: FSG Social impact Advisors, 2007
Marketplace: Supply
PRIs—and MRIs/IIs--typically larger than grants

<table>
<thead>
<tr>
<th>PRI Amounts</th>
<th>#</th>
<th>%</th>
<th>$ (000s)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10 million +</td>
<td>2</td>
<td>0.3</td>
<td>24,911</td>
<td>7.1</td>
</tr>
<tr>
<td>$5 – $10 million</td>
<td>8</td>
<td>1.2</td>
<td>51,225</td>
<td>14.6</td>
</tr>
<tr>
<td>$1 – $5 million</td>
<td>96</td>
<td>14.9</td>
<td>176,747</td>
<td>50.3</td>
</tr>
<tr>
<td>$500,000 – $1 million</td>
<td>61</td>
<td>9.4</td>
<td>36,567</td>
<td>10.4</td>
</tr>
<tr>
<td>$100,000 – $500,000</td>
<td>233</td>
<td>36.1</td>
<td>52,491</td>
<td>14.9</td>
</tr>
<tr>
<td>$50,000 – 100,000</td>
<td>95</td>
<td>14.7</td>
<td>5,795</td>
<td>1.6</td>
</tr>
<tr>
<td>$25,000 – $50,000</td>
<td>76</td>
<td>11.8</td>
<td>2,549</td>
<td>0.7</td>
</tr>
<tr>
<td>$10,000 – $25,000</td>
<td>75</td>
<td>11.6</td>
<td>1,199</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>646</td>
<td>100.0</td>
<td>351,484</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Foundation Center, 2003 reflecting 200 - 2001 PRI activity
## Marketplace: Supply & Demand

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment Opportunities: Intermediary, Direct, Nonprofit &amp; For-Profit Entities</th>
<th>Current Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>NCB Capital impact, NFF, Community Health Facilities Fund, Working Today, West Alabama Health Services Inc., AIDS Housing of Washington</td>
<td>RWJF, Ford, CA Community, Kresge</td>
</tr>
<tr>
<td>Human Services</td>
<td>IFF, LIIF, NFF, Eliza Bryant Center (eldercare), Pioneer Human Services</td>
<td>RWJF, MacArthur, Rockefeller, Kresge</td>
</tr>
<tr>
<td>Housing &amp; Community Development</td>
<td>LISC, Enterprise, ShoreBank, Self-Help, Low Income Investment Fund, The Reinvestment Fund, Community Reinvestment Fund, Bridge Housing, Market Creek Plaza, Cleveland Theaters</td>
<td>Ford, MacArthur, Heron, Cleveland, CA Endowment, Jacobs</td>
</tr>
<tr>
<td>Small Business/Workforce</td>
<td>Sustainable Jobs Fund, ShoreBank Enterprise, Coastal Enterprises, Community Development VC Alliance, Pacific Community Ventures</td>
<td>MRBF, Heron, Ford, Casey, CA Healthcare</td>
</tr>
<tr>
<td>Asset Building/Safe Credit &amp; Fin. Services</td>
<td>Self-Help, NC Minority Support Center, Latino Comm. CU, Generations, ShoreBank, CDFI CUs and banks, Natl. Federation of CDCUs, National Community Investment Fund</td>
<td>MRBF, Heron, Ford, MacArthur, Casey, Kellogg</td>
</tr>
<tr>
<td>Environment</td>
<td>Trust for Public Land, Sea Change Fund, Enterprise Green Building, Wetlands Initiative, CC Woodson Center (within Spartanburg, SC City park)</td>
<td>Packard, Donnelly, Gund, Ford, Mary Black</td>
</tr>
<tr>
<td>Arts &amp; Culture</td>
<td>NFF, Boston Community Capital, Children’s Museum of Los Angeles</td>
<td>CA Community, Ford</td>
</tr>
</tbody>
</table>
Supply & Demand: Efficient Capital Markets for US Healthy Communities

Supply of Social Capital meets risk-return demand of Public Capital Markets

Bond Market: Hospitals, Health Centers, Long-Term Care, Charter Schools, Securitized Medical Professional and Student Loans

Scale

Public Goods

Bank CRA Loans: CDFIs, Affordable Housing, Large Safety Net Organizations, Small Business

Credit Enhancement

Bank CRA Loans: CDFIs, Affordable Housing, Large Safety Net Organizations, Small Business

Credit Enhancement

Bond Market: Hospitals, Health Centers, Long-Term Care, Charter Schools, Securitized Medical Professional and Student Loans

Screened Public Equity Funds: avoid tobacco, etc.; may include positive screens

CDFIs & Faith-Based Intermediaries: Affordable Housing, Small Business, Health Centers, Charter Schools, Childcare

Innovation: Greater/Different Real/Perceived Risk: “But for” ~ “Impact”

Innovation: Greater/Different Real/Perceived Risk: “But for” ~ “Impact”

Foundation PRIs: CDFIs and similar direct lending, Social Ventures

Private Equity Funds: Biotech, Pharma, Retail Clinics, Clean Tech, LOHAS, Healthy School Lunch, Jobs with Benefits

DBL/TBL Private Equity Funds: Biotech, Pharma, Retail Clinics, Clean Tech, LOHAS, Healthy School Lunch, Jobs with Benefits

Private Equity Demand for Social Capital

Subsidy

Return

Key: CDFI - Community Development Financial Institution; LOHAS - Lifestyles of Health and Sustainability DBL/TBL - Double and/or Triple Bottom Lines of Financial, Social and/or Environmental Return
Resources

• Organizations with Mission / Impact Investing Focus

  www.moreformission.org
  www.primakers.net
  www.globalimpactinvestingnetwork.org
  www.socialinvest.org,
  www.communityinvest.org
  http://www.iccr.org
  www.cdfifund.gov
  www.takeactionforimpact.com

  Example Intermediaries:
  http://www.albinabank.com/
  http://www.caplink.org/
  http://www.liifund.org
  www.ncbcapitalimpact.org
  www.nonprofitfinancefund.org
  www.trfund.com

• Foundations with Mission Investing Programs

  http://www.calendow.org/Article.aspx?id=4005 (background and presentations from July 1, 2009 Mission Investing Forum: Building Healthy Communities)
  www.calfund.org/receive/program_investments.php
  www.packard.org
  www.heronfdn.org
  www.wkkf.org
  www.aecf.org
  www.macfound.org
  www.mmt.org
  www.kresge.org
  www.rwjf.org

• Other

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Impact Investing

Models & Examples

2010 National Interagency Community Reinvestment Conference
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March 18, 2010
Jackie Khor  jackie@imprintcap.com
Impact Investment Opportunities Exist across Multiple Asset Classes

- **Debt**
  - Direct loans into projects
  - Loan funds
  - Other intermediaries

- **Real Estate**
  - Direct investments into enterprises
  - Private equity/venture capital through intermediaries

- **Private Equity**
  - Direct investments into projects
  - Investments through real estate funds

- **Cash Deposits**
  - Community development/green banks & credit unions
Role of Impact Investments in a Debt Capital Stack

1. Senior loans
   - Banks
   - Insurance companies
   - Impact investors (*market rate*)

2. PRIs
   - Foundations/impact investors (*below market*)

3. Grants
   - State & local funds
   - Federal funds
   - Foundation grants
Loan into a real estate project: Market Creek Plaza

- Example: Market Creek Plaza project in LMI community in San Diego started with community’s expressed need for access to affordable groceries & fresh foods.
Investments that made this possible:

- Leadership, vision
- Grants
- High risk Equity
- Low-interest Loans

- Construction loan
- Working capital loans
- Branch office
- Priority drivers
- Equity investment
- Ownership
- Low-interest loans
Capital Stack for Market Creek Plaza Project

1. Senior loans
   - Wells Fargo
   - Clearinghouse CDFI

2. Loans
   - Local residents
   - Rockefeller
   - Annie E. Casey
   - F.B. Heron

3. PRIs
   - Legler Benbough
   - Jacobs Family Foundation

4. Grants
   - Legler Benbough
   - Jacobs Family Foundation
Market Rate Examples: Equity & Debt Combinations

<table>
<thead>
<tr>
<th>Sector</th>
<th>Role of Impact Investors</th>
<th>Role of Financial Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education &amp; Learning</td>
<td>Equity into growth-stage companies</td>
<td>➔ Term loans</td>
</tr>
<tr>
<td>Access to healthy food</td>
<td>Loan participations</td>
<td>➔ Working capital lines of credit</td>
</tr>
<tr>
<td>Enterprises across multiple sectors</td>
<td>Mezzanine debt</td>
<td>➔ Co-invest in financing pools via intermediaries</td>
</tr>
</tbody>
</table>
So, Where are these Impact Investors?

- Institutional investor networks:
  - Foundations
  - Investment advisors
  - Program advisors
Understanding the Impact Investing Trend

National Interagency Community Reinvestment Conference

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Curator & Creator, Take Action! Conference Series
President, Correlation Consulting
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March 18, 2010

The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.
Where do you find impact investors?

THE F.B. HERON FOUNDATION’S CONTINUUM OF MISSION-RELATED INVESTING

BELOW MARKET-RATE INVESTMENTS

- Higher Risk
  - Grant Support
  - Equity
  - Subordinated Debt
  - Senior Debt
  - Cash

LOWER RISK

MARKET-RATE INVESTMENTS

- Cash
- Fixed Income
- Public Equity
- Private Equity

- Lower Risk
- Higher Risk

$2.4 trillion AUM represented by 145 people (70% participants are asset owners)
The extent of impact investing

**More than foundations**

*Asset Owners*
- Foundations
- Individuals, Families & Family Offices
- Major Pension Plans – CalSTRS, CalPERS
- Insurance Companies – Prudential

*Their Ecosystem*
- Consultants/Financial Advisors
- Philanthropic Consultants

*Asset Managers & Other Intermediaries*
- Across asset classes
- Investment Banks – JP Morgan, Goldman Sachs

**Motivations**

*Financial*
- Looking for outperformance
- Qualitative signals
- Reduce risk
- Transparency

*Social/Environmental*
- Alignment with values
- Use all their assets – financial and non-financial
- Impact – beyond intent

Interdisciplinary, Silo-Busting
Business, Finance, Nonprofits, Government
Serious Financial Players
...a sample
Breadth of issue areas and asset classes

**Illustrative Landscape of Impact Themes with Asset Class Exposures**

<table>
<thead>
<tr>
<th>Asset Classes</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td>Income &amp; Wealth Preservation</td>
<td>Capital Appreciation &amp; Wealth Growth</td>
</tr>
<tr>
<td>Cash / Cash Alternatives</td>
<td>Notes / Other Debt Obligations</td>
<td>Bonds</td>
</tr>
<tr>
<td>Climate Change</td>
<td>Green Bank Deposit</td>
<td>Tax-exempt green bonds</td>
</tr>
<tr>
<td>Water</td>
<td>Corporate Infrastructure Bonds</td>
<td>Water Treatment Project Finance</td>
</tr>
<tr>
<td>Community Development</td>
<td>Community Development Bank CDs</td>
<td>Foreclosure Repair</td>
</tr>
<tr>
<td>Social Enterprises</td>
<td>Social Enterprise Credit</td>
<td>Micro-Cap Listed Social Companies</td>
</tr>
<tr>
<td>Health &amp; Wellness</td>
<td>Structured Public Note</td>
<td>Consumer Product Venture Capital</td>
</tr>
<tr>
<td>Sustainable Development</td>
<td>Trade Finance Guarantee / Deposit</td>
<td>Smart Growth Municipal Bonds</td>
</tr>
<tr>
<td>Education</td>
<td>Linked Deposit / Guarantee</td>
<td>Charter School Bonds</td>
</tr>
</tbody>
</table>

**Source:** Solutions for Impact Investors: From Strategy to Implementation, Rockefeller Philanthropy Advisors, p. 64-65.
NYC Acquisition Fund LLC

• Offers acquisition and predevelopment loans to developers committed to the creation and preservation of affordable housing in the five boroughs of New York City.

• Made possible through an unprecedented partnership between the City of New York, major foundations and New York’s public and private investment groups, the Fund provides loans at the following general terms:
  – Capital advance rates of up to 130% LTV for Non-Profit Borrowers and up to 95% LTV for For-Profit Borrowers
  – Variable interest rate currently indexed to Prime
  – Loan terms of up to 3 years
  – Limited Recourse down to 25%

• Originators:
US Community Investing Index Strategy

• “Includes companies that demonstrate successful and positive engagement with traditionally underserved US communities….The Index reflects the growing belief among investors that sound social and community performance is not only an indication of responsible and disciplined management, but an important factor in business success.”

• Approximately 330 large- and mid-cap stocks across all sectors
• Positively screened, “best in class” approach to environmental, social and governance (ESG) investing
• FB Heron Foundation initiated the process
• Managed by one of the world’s largest money managers
Louisiana Loan Fund LLC

• Provides financing to developers of affordable and mixed-income housing. Funds are available to developers who acquire land or buildings for development to replace housing that was lost or severely damaged due to Hurricanes Katrina and Rita.

• Eligible applicants may borrow up to $200,000 for Early Predevelopment expenses necessary for initial project feasibility and up to $3 million for Acquisition/Predevelopment financing to purchase properties and complete predevelopment activities prior to construction closing.

• Three tier fund
  – HUD grant $ for first loss
  – Foundation PRIs in the junior position – Annie E. Casey Foundation & Rockefeller Foundation
  – Banks as senior position (higher return)
  – Provocative question: Are CRA qualifying investments are considered truly market rate?

• Managers:

[Logos for Enterprise, LISC, and Take Action]
CellBazaar

Why is this investment important to you - Low-income merchants are typically at a disadvantage in any transaction, because they often have less information about market conditions and alternatives. CellBazaar helps level the playing field by making markets more accessible to anyone in reach of a cell signal.

**Geography** – Asia  
**Theme** – Social & Economic Development  
**Structure** – Direct Investment  
**Fund Status** - Closed
**Why is this investment important to you:** Beartooth Capital takes a holistic and sustainable approach to land management, working collaboratively with conservation groups and communities to restore and protect ecologically important land.

**Geography:** Western US  
**Theme:** Environmental  
**Asset Class:** Opportunistic Real Estate  
**Structure:** Fund  
**Status:** Opens in the next few months
What’s next?

• The younger generation
• Either/Or → Both/And
• Me → We
• Telling effective stories
• Importance of metrics & measurement
• Intent → Impact

When will impact investing move from “Nice to have” →“essential”? 