



Impact Investing Understanding the Trend

2010 National Interagency Community
Reinvestment Conference
March 18, 2010
New Orleans, Louisiana

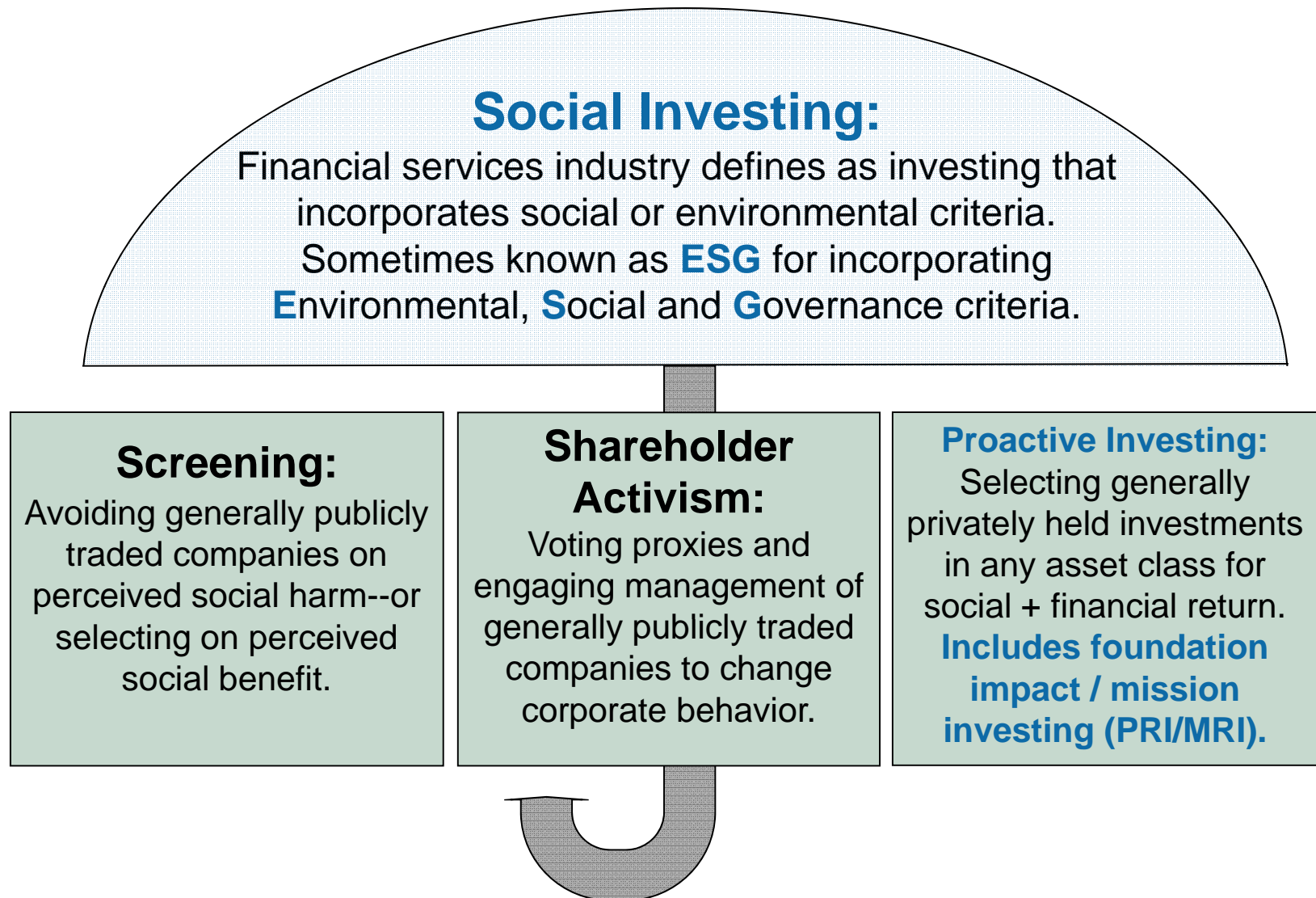
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Impact Investing Outline

- Definitions
- Motivation
- Marketplace
- Resources

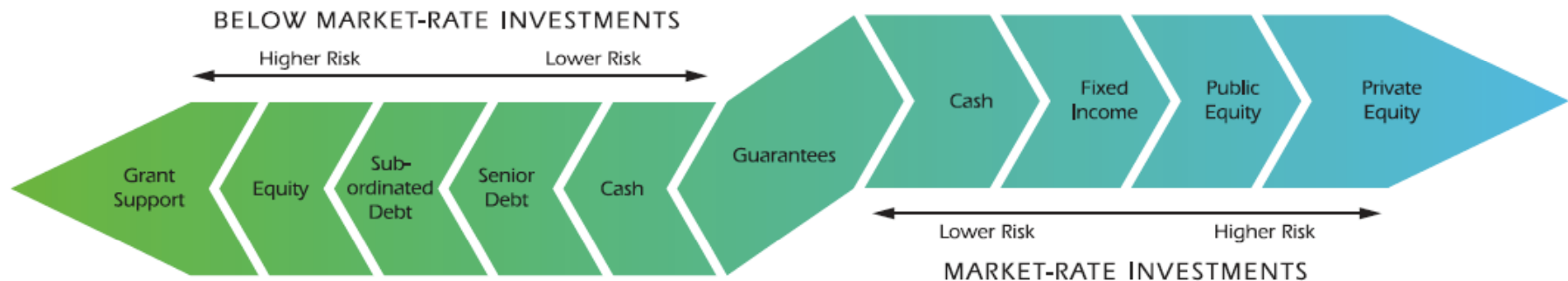
Definitions

Impact Investing is part of the broad Social Investment Market



Mission Investing: Proactive financial investments made to (1) further *foundation's* mission and (2) recover principal invested or earn financial return.¹

THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING²



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%."

¹ Source: FSG Social impact Advisors, 2007. ² Source: F.B. Heron Foundation. Recoverable Grants described on page 12.

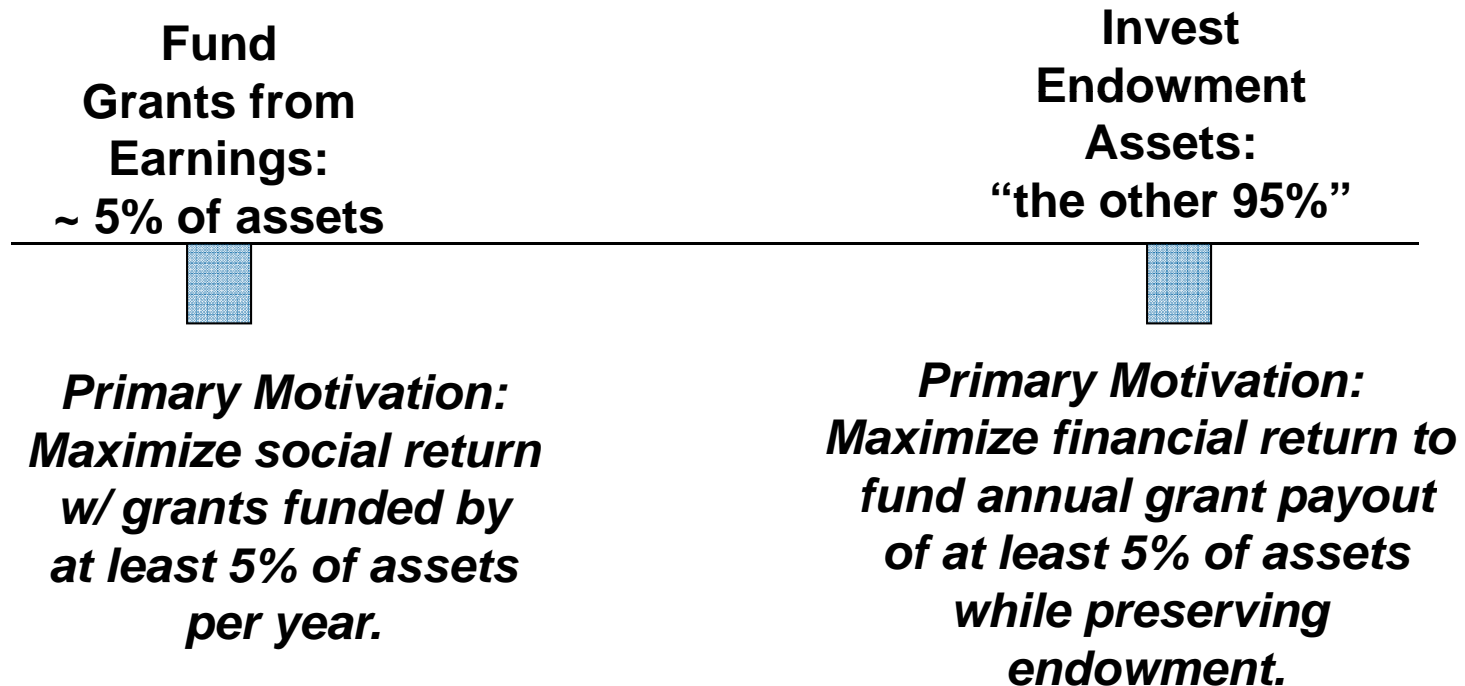
Definitions: *Alphabet Soup du jour*

- 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

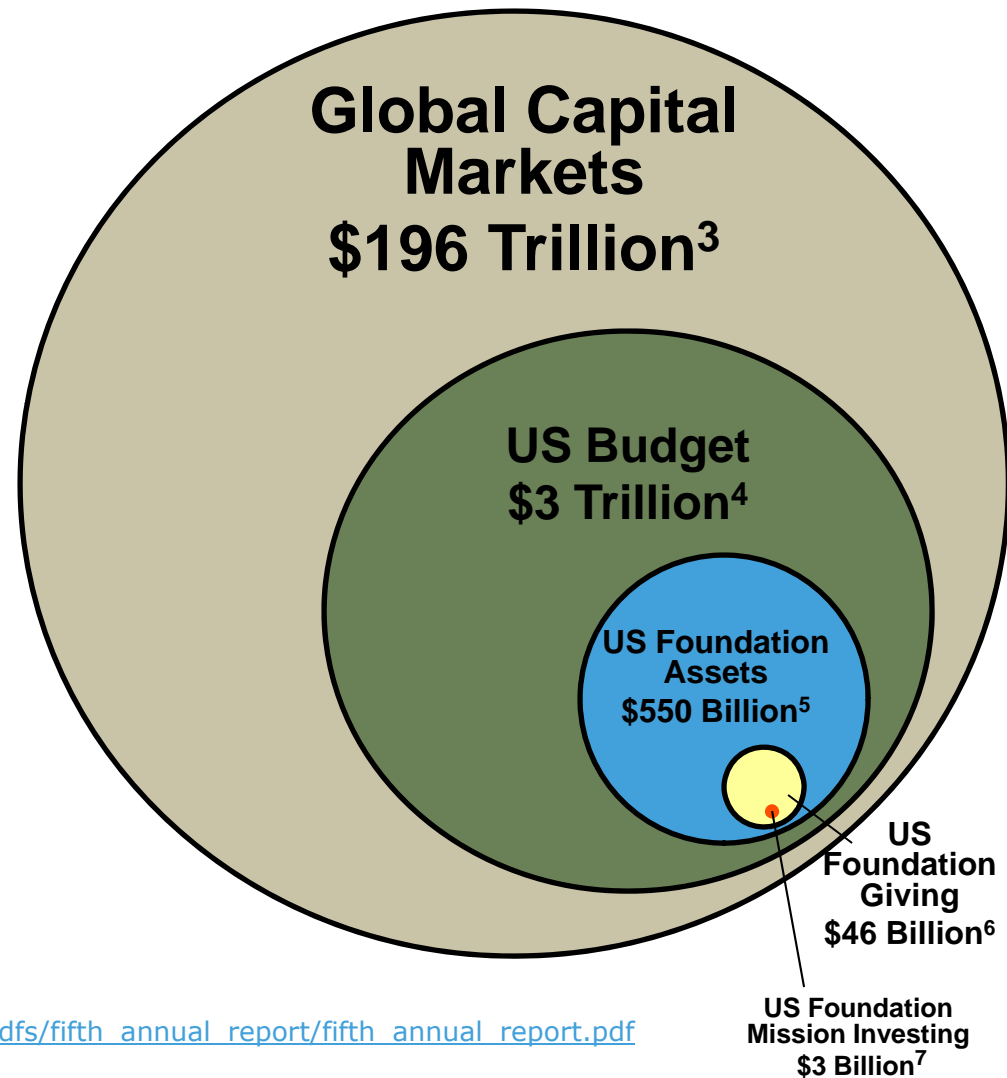


Motivation

- 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.”⁸



³ Source: www.mckinsey.com/mgi/reports/pdfs/fifth_annual_report/fifth_annual_report.pdf

⁴ Source: www.gpoaccess.gov/usbudget/

⁵⁻⁶ Source: www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf

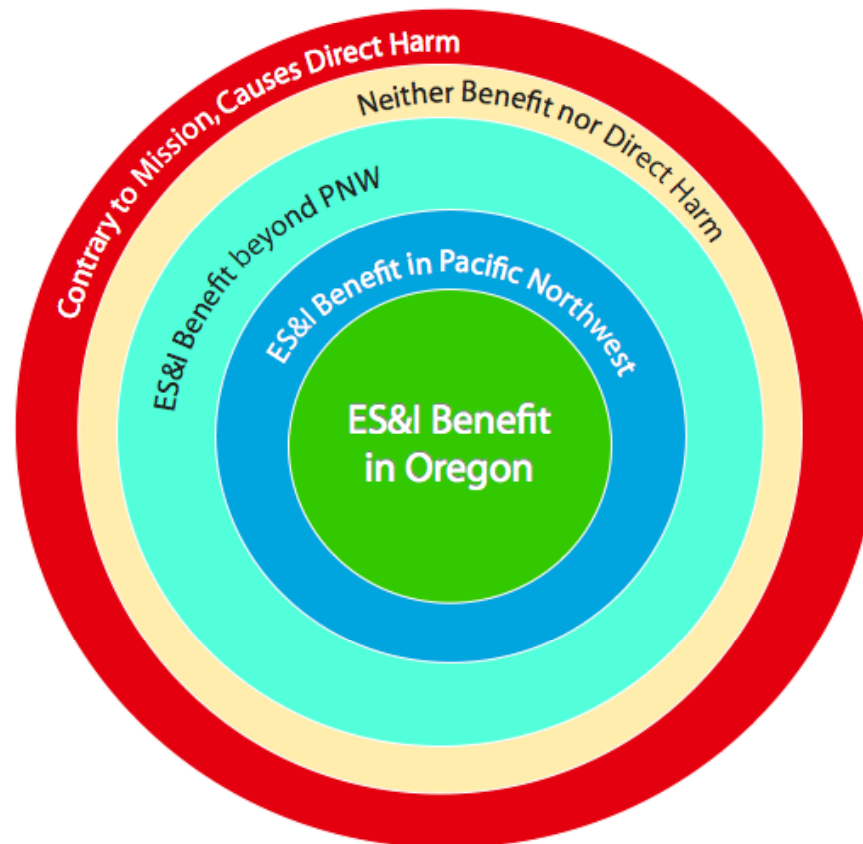
⁷ Source: [Estimate, GPS Capital Partners, LLC](http://Estimate.GPSCapitalPartners,LLC)

⁸ Source: www.ssireview.org/images/articles/2007FA_feature_kramer_cooch.pdf

Motivation: Alignment

MMT's Mission-Related Market Rate Investment Strategy

"Maximizing Impact"



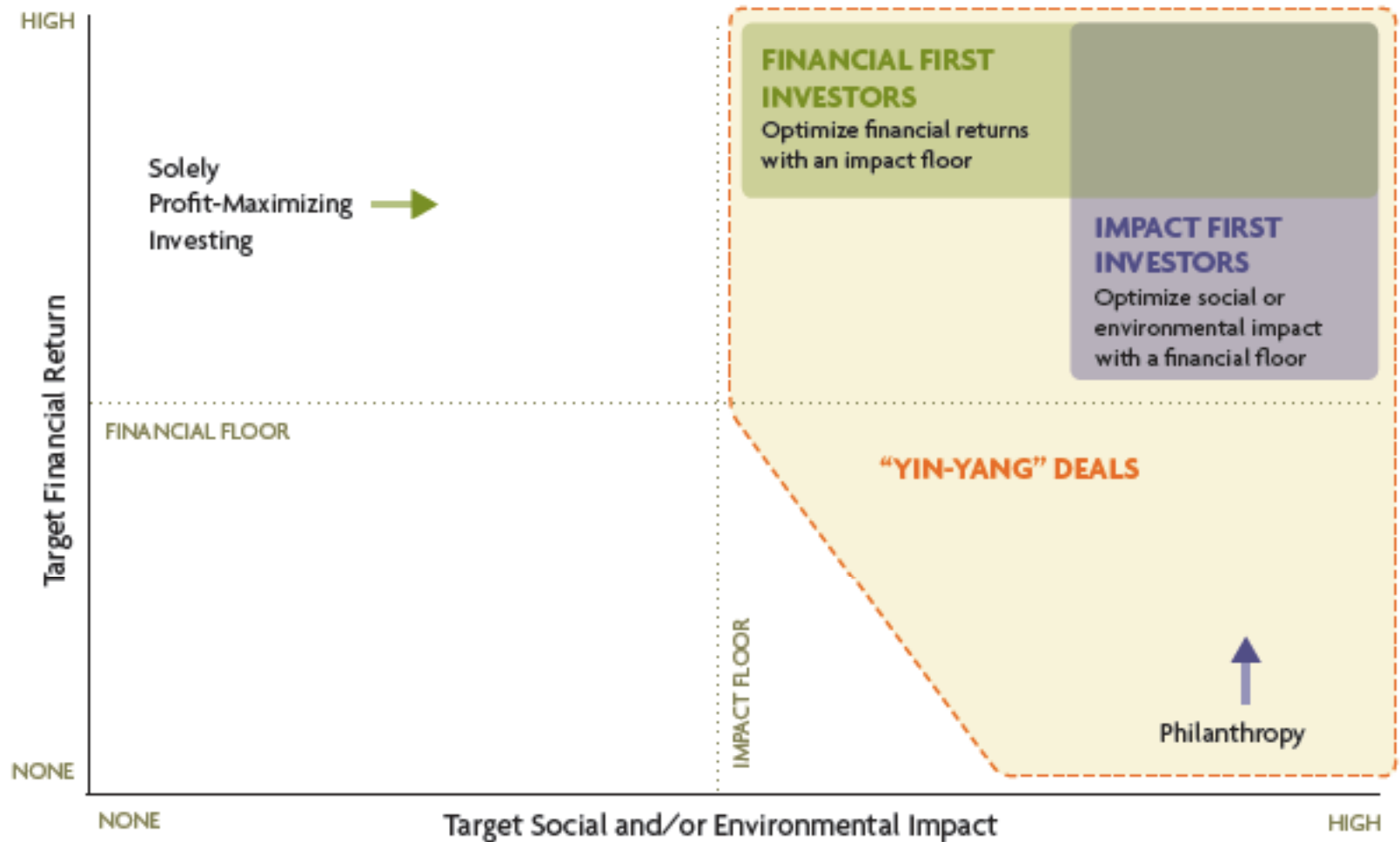
E = Environmental S = Social I = Economic Impact

Source: Meyer Memorial Trust

Motivation:

Financial First / Impact First

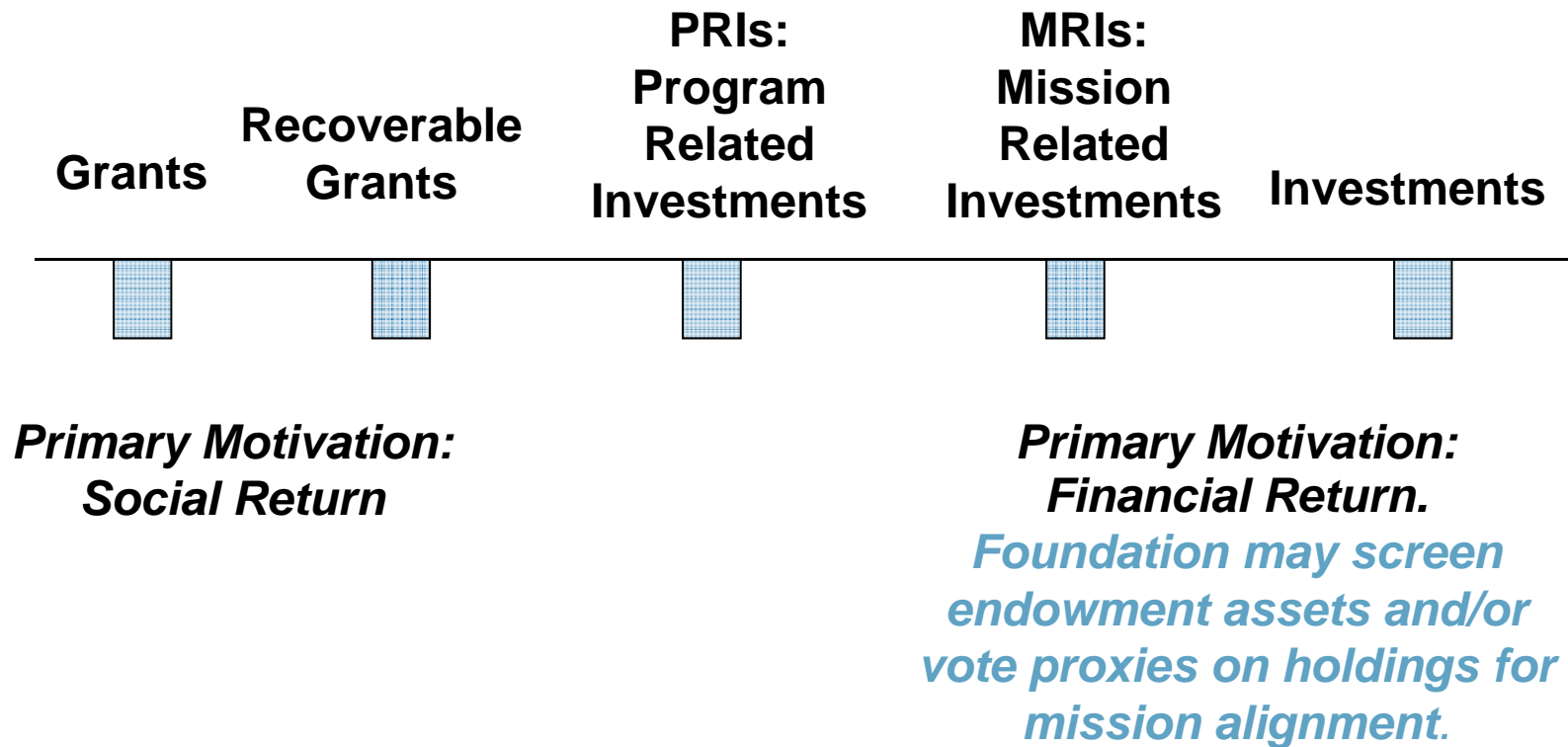
Segments of Impact Investors



Source: Monitor Institute

Motivation:

New Philanthropic Investing Continuum



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

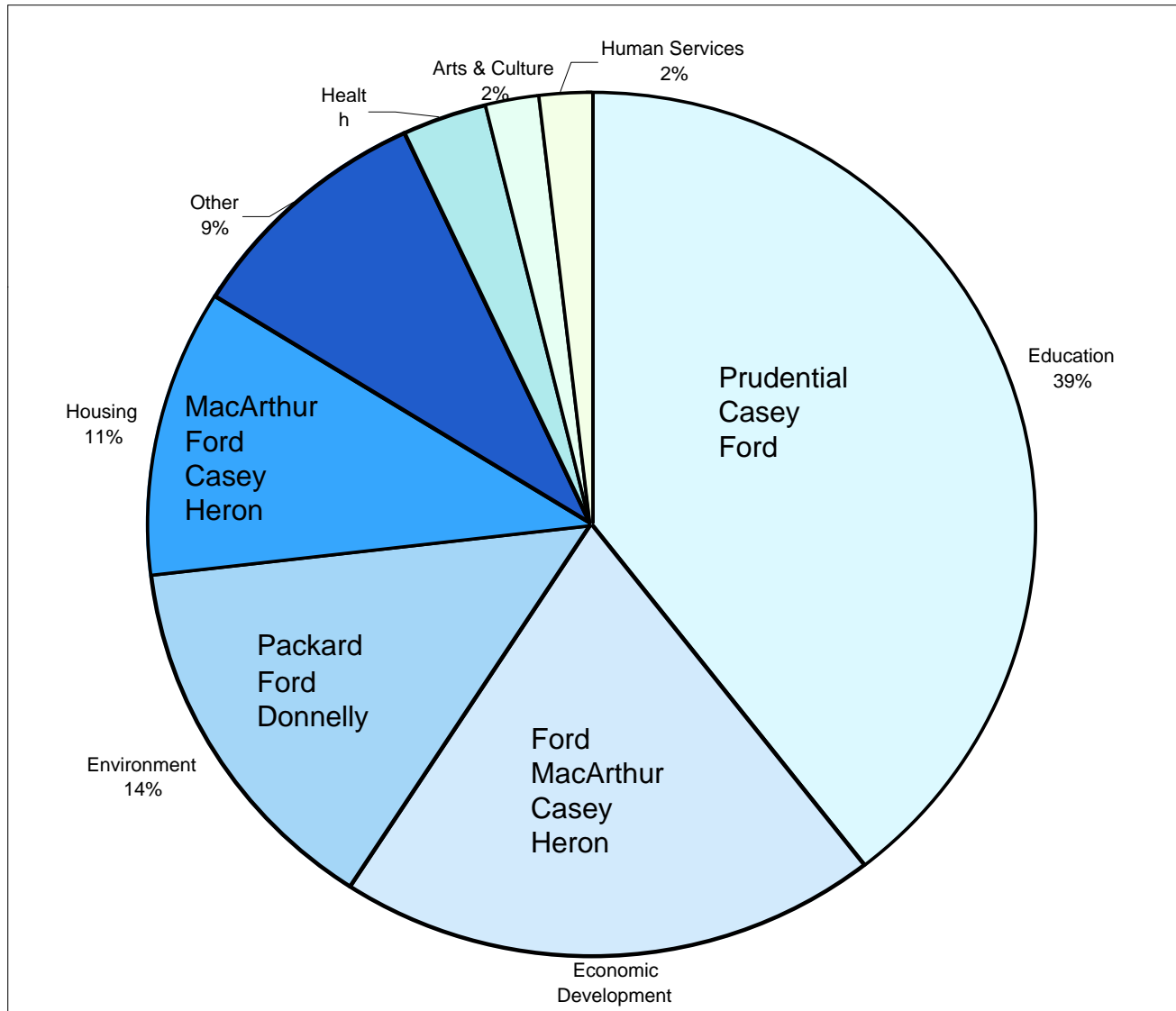
- Significant unrealized potential, despite track record:⁹
 - 92 foundations, 40 years, \$2.3 billion--85% PRIs:
 - 96% repayment on debt through 2006, correcting for outliers; 75% w/ 0% default.
- Market at an inflection point:
 - \$350 - 400 million annual mission investment (< 0.07% assets).¹⁰
 - 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/Is--typically larger than grants

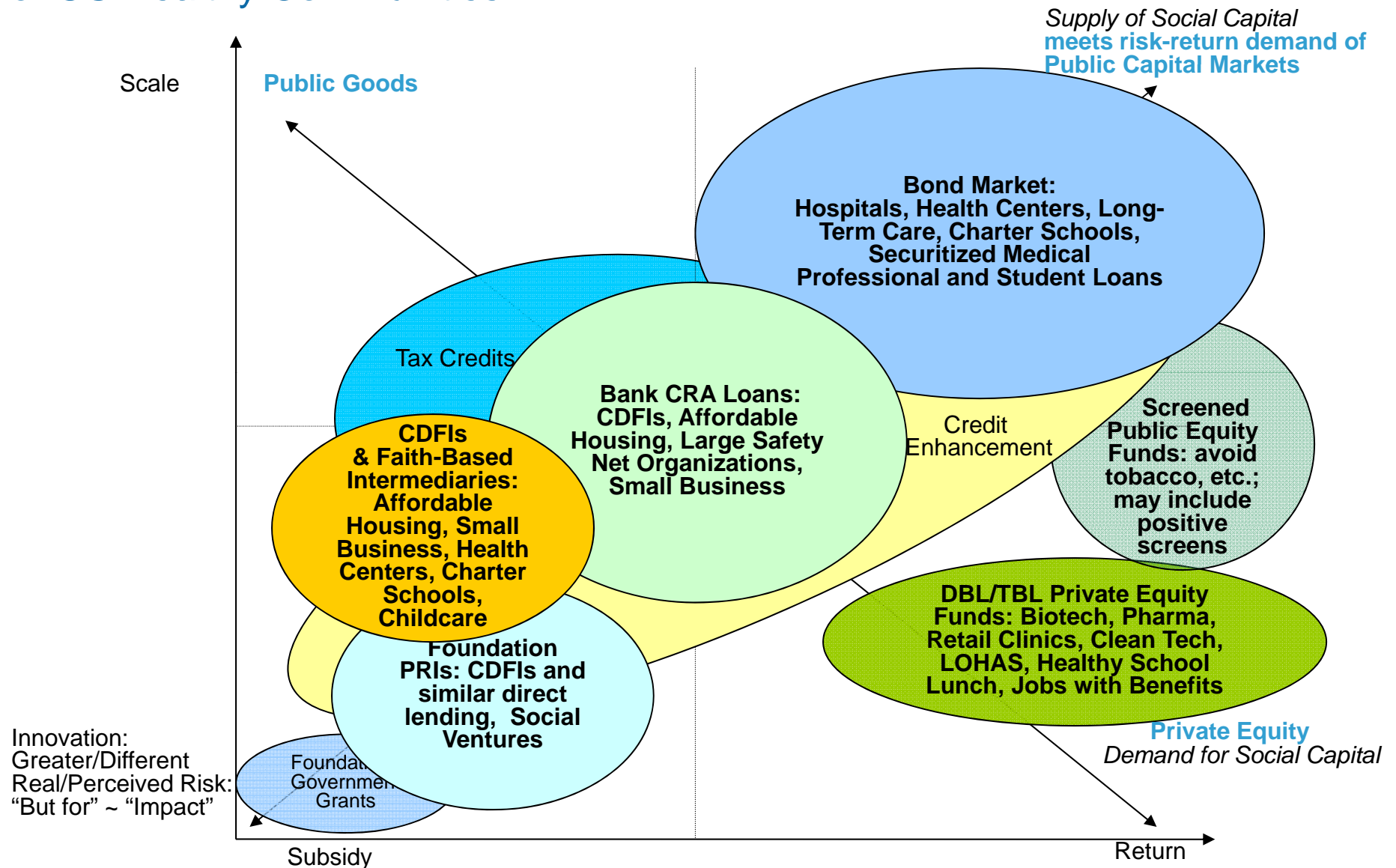
PRI Amounts	#	%	\$ _(000s)	%
\$10 million +	2	0.3	24,911	7.1
\$5 – \$10 million	8	1.2	51,225	14.6
\$1 – \$5 million	96	14.9	176,747	50.3
\$500,000 – \$1 million	61	9.4	36,567	10.4
\$100,000 – \$500,000	233	36.1	52,491	14.9
\$50,000 – 100,000	95	14.7	5,795	1.6
\$25,000 – \$50,000	76	11.8	2,549	0.7
\$10,000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

Source: Foundation Center, 2003 reflecting 200 - 2001 PRI activity

Marketplace: Supply & Demand

Sector	Investment Opportunities: Intermediary, Direct, Nonprofit & For-Profit Entities	Current Investors
Healthcare	NCB Capital impact, NFF, Community Health Facilities Fund, Working Today, West Alabama Health Services Inc., AIDS Housing of Washington	RWJF, Ford, CA Community, Kresge
Human Services	IFF, LIIF, NFF, Eliza Bryant Center (eldercare), Pioneer Human Services	RWJF, MacArthur, Rockefeller, Kresge
Education	IFF, Council for Adult & Experiential Learning, Howard U. Press, Ed. Facilities Financing Center (LISC), Playworks, Raza Development Fund, NFF, Revolution Foods	Prudential, Ford, Gates, Walton, RWJF, Kellogg
Housing & Community Development	LISC, Enterprise, ShoreBank, Self-Help, Low Income Investment Fund, The Reinvestment Fund, Community Reinvestment Fund, Bridge Housing, Market Creek Plaza, Cleveland Theaters	Ford, MacArthur, Heron, Cleveland, CA Endowment, Jacobs
Small Business/ Workforce	Sustainable Jobs Fund, ShoreBank Enterprise, Coastal Enterprises, Community Development VC Alliance, Pacific Community Ventures	MRBF, Heron, Ford, Casey, CA Healthcare
Asset Building/ Safe Credit & Fin. Services	Self-Help, NC Minority Support Center, Latino Comm. CU, Generations, ShoreBank, CDFI CUs and banks, Natl. Federation of CDCUs, National Community Investment Fund	MRBF, Heron, Ford, MacArthur, Casey, Kellogg
Environment	Trust for Public Land, Sea Change Fund, Enterprise Green Building, Wetlands Initiative, CC Woodson Center (within Spartanburg, SC City park)	Packard, Donnelly, Gund, Ford, Mary Black
Arts & Culture	NFF, Boston Community Capital, Children's Museum of Los Angeles	CA Community, Ford

Supply & Demand: Efficient Capital Markets for US Healthy Communities



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

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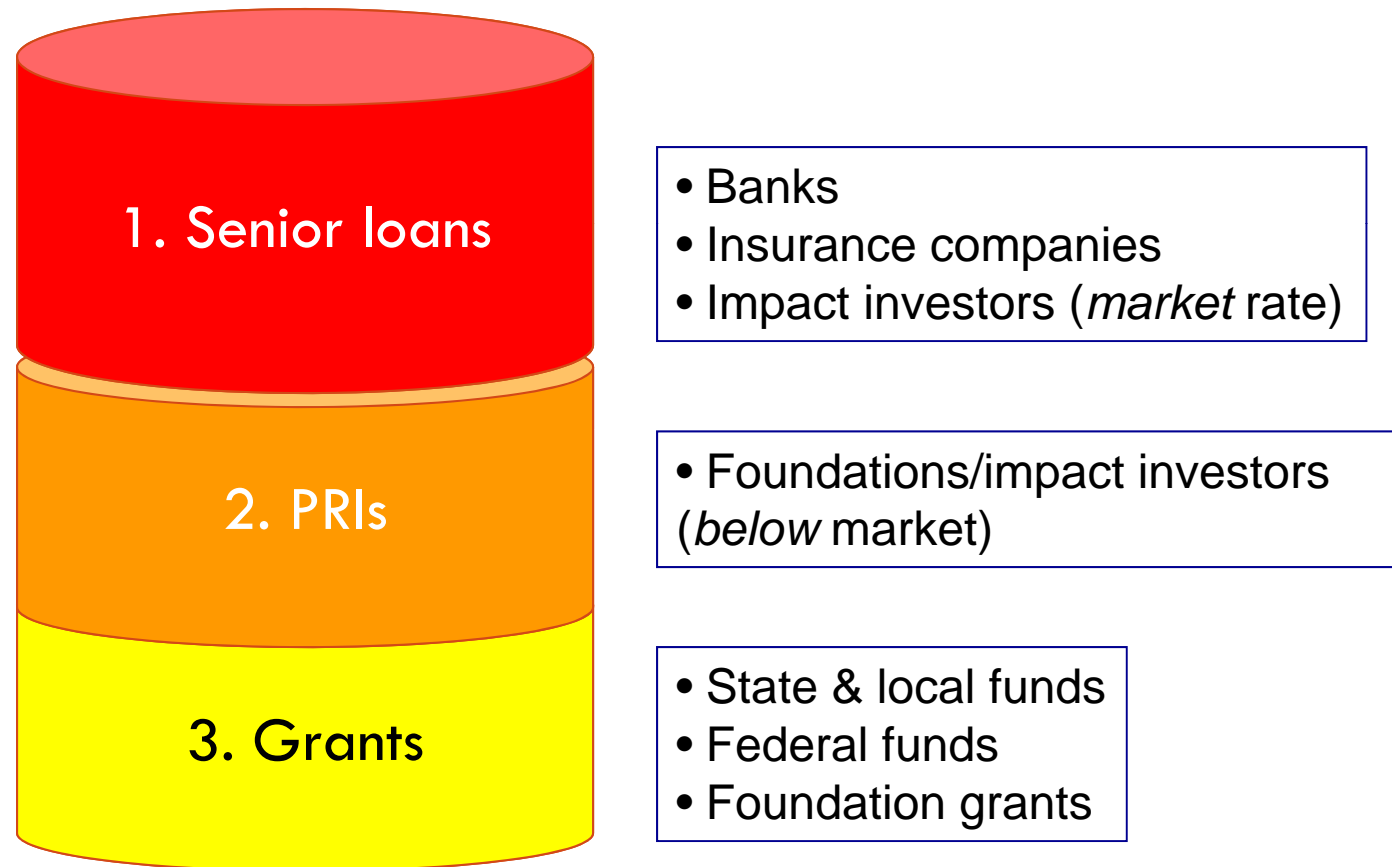
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Impact Investment Opportunities Exist across Multiple Asset Classes



Role of Impact Investments in a Debt Capital Stack



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

The Annie E. Casey Foundation *Helping vulnerable kids & families succeed*

THE F.B. HERON FOUNDATION

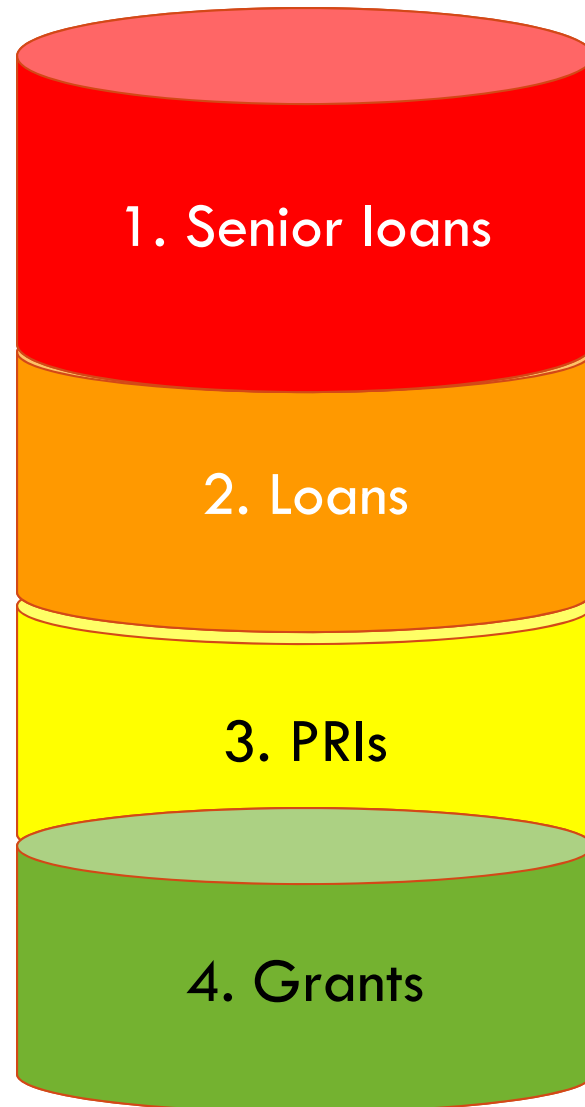
THE
LEGLER BENBOUGH
FOUNDATION

THE
ROCKEFELLER
FOUNDATION

- ✓ Low-interest loans

IMPRINT capital advisors
catalyzing capital for impact

Capital Stack for Market Creek Plaza Project



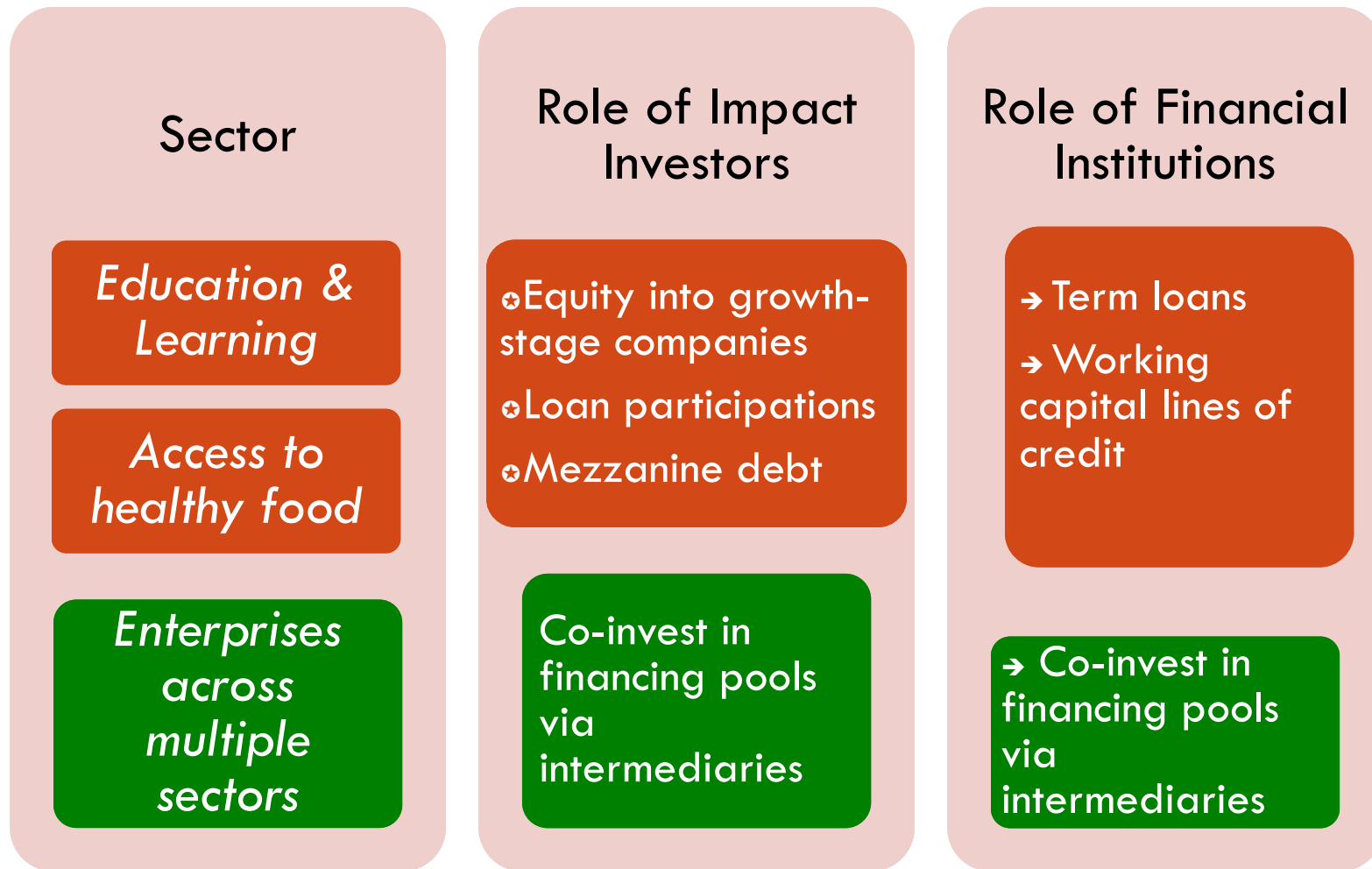
- Wells Fargo
- Clearinghouse CDFI

- Local residents

- Rockefeller
- Annie E. Casey
- F.B. Heron

- Legler Benbough
- Jacobs Family Foundation

Market Rate Examples: Equity & Debt Combinations



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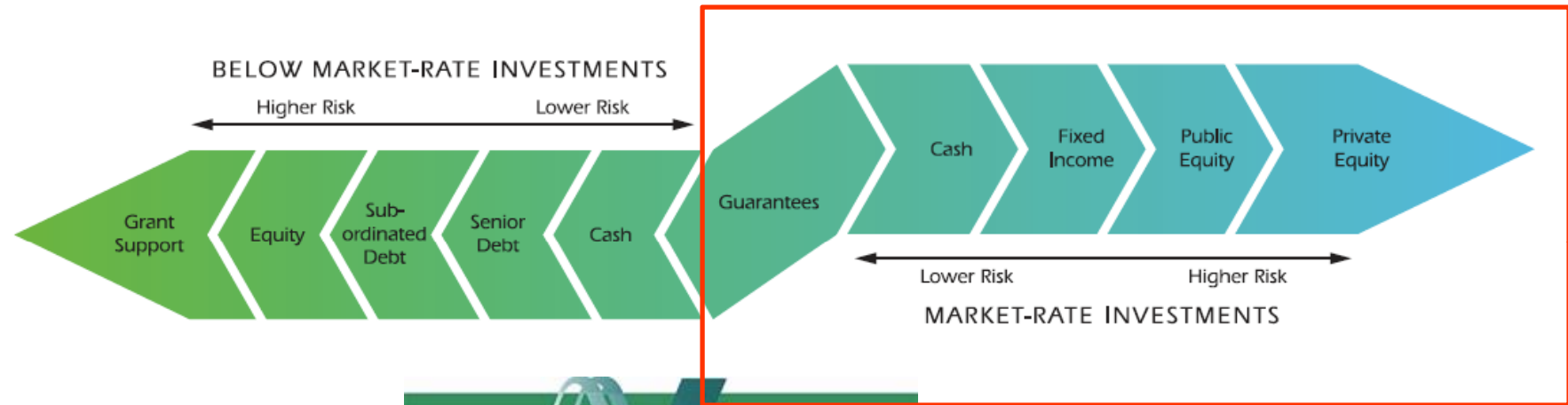
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The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

Where do you find impact investors?

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



TONIIC

unaffiliated



\$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

**Take
Action!** Impact
Investing
Conference
Series

PRESENTED BY CORRELATION CONSULTING

Serious Financial Players

...a sample



The Annie E. Casey Foundation *Helping vulnerable kids & families succeed*



THE E.B. HERON FOUNDATION



THE
ROCKEFELLER
FOUNDATION



Breadth of issue areas and asset classes

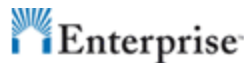
Illustrative Landscape of Impact Themes with Asset Class Exposures

Social, Environmental or Blended Impact Themes	Asset Classes					Asset Classes				
	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, Timber & other Real Assets
	Climate Change	Green Bank Deposit		Tax-exempt green bonds	CO ₂ Trading	Positive & Negative Screening		Clean Tech Venture Capital	Green REITs	
	Energy			Screened Corporate Bonds	Alternative Energy Project Finance	Exchange Traded Funds (ETFs)	Renewable Energy	Energy Efficiency Venture Capital		Sustainable Feedstocks
	Water			Corporate Infrastructure Bonds	Water Treatment Project Finance	Unit Investment Trust, Closed End Funds	Water Funds	Water Technology Venture Capital		Water Rights
	Community Development	Community Bank CDs	Foreclosure Repair		Microfinance Institutions Debt	Shareholder Proxy Voting		Community Development Venture Capital	Transportation — Smart Development Funds	
	Social Enterprises		Social Enterprise Credit			Micro-Cap Listed Social Companies		Small & Medium Enterprise	Conservation / Ecotourism	
	Health & Wellness				Structured Public Note			Consumer Product Venture Capital	Organic Farming	
	Sustainable Development	Trade Finance Guarantee / Deposit		Smart Growth Municipal Bonds	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	

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:



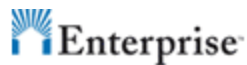
US Community Investing Index Strategy

- “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:



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

Beartooth Capital II



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

Asset Class: Opportunistic Real Estate

Status: Opens in the next few months

Theme: Environmental

Structure: Fund

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”?