



Impact Investing through Donor Advised Funds at Community Foundations

Models & How to Get Started

This webinar is part of a project to develop an impact investment toolkit for community foundations funded by The Rockefeller Foundation

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Outline of Today's Webinar

- Background on Rockefeller Foundation-funded community foundation impact investment project
- Models and approaches for community foundations and donor-advised funds
- Examples of community foundation impact investments
- Getting started
- Next steps

Background

- **Objective:** Develop by February 2012 a toolkit for community foundations to include their Donor Advised Funds in Impact Investments
 - ▣ Grounded in practice and oriented around tools and experiences
 - ▣ Rooted in diverse context of multiple institutions
- **Process:** Work with up to five community foundations to develop toolkit
 - ▣ Quarterly update webinars to share lessons, get feedback, and leverage capacity and partnerships
 - ▣ Broader strategy to roll-out tool kit and support for community foundations at conclusion of the project

What is Impact Investing?

- Use of investment capital to address social and/or environmental challenges while achieving a financial return
- Span a broad range of structures and approaches
 - ▣ Asset classes: From cash to venture capital
 - ▣ Geographies: From local to global
 - ▣ Return profiles: From below market rate to market rate
 - ▣ Structures: From funds & intermediaries to direct transactions

Why Impact Investing and Community Foundations?

- Beyond grants: tools to deploy foundation assets
- Leverage scarce resources: recycle investment capital vs. grants and catalyze additional investment
- Greater community impact in multiple sectors
- Donor demand – more entrepreneurial and investment-minded donors; generational shift
- Competitive positioning vs. commercial DAF providers
- Broader trend advancing practice of impact investing

Key Considerations

Strategy

- Geographic focus
- Program integration
- Return profile

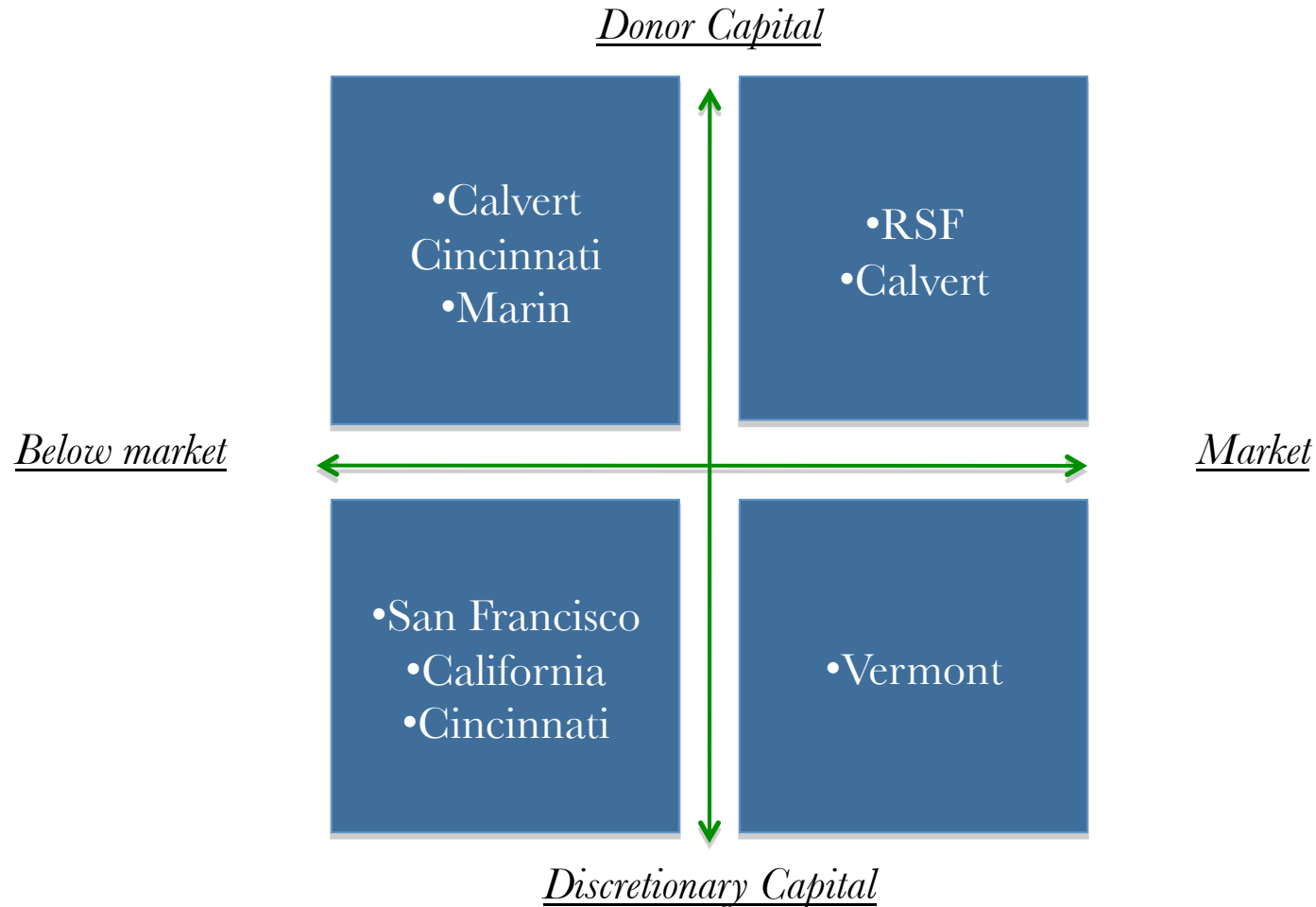
Capital

- Discretionary funds
- Donor funds

Execution

- Governance
- Investment process
- Management

Impact Investment Models





Foundation Case Studies

Donor Impact Investment Models

1) Allocation within existing investment option(s)

- Allocation within existing investment pool/option
- DAF and discretionary funds are comingled
- Vermont, Silicon Valley

2) Separate investment option

- Separate investment pool/option
- Donors elect to have DAF invested in pool
- Marin, RSF Social Finance

3) Participate on a deal by deal basis

- Donors participate along side foundation on a deal by deal basis
- Individual investments held in each DAF account
- Greater Cincinnati

1) Vermont Community Foundation

- 5% of the foundation's pooled investment assets (\$6 million) are invested in loans and venture investments within Vermont
- All investments made through experienced intermediaries (e.g. loan funds, investment funds vs. direct investments)
- Are allocated across each of the four investment pools available to donors

1) Silicon Valley Community Foundation

- Invests in insured mission deposits as part of stable value cash pool available to donors
- \$93 million in deposits spread across development banks, minority-owned banks, and local community banks
- Preference for banks within the foundation's region
- Deposits cannot exceed 15% of the banks total deposit base and must offer competitive rates
- Banks value having a relationship with the foundation but sometimes need to be educated about the CDARS program

2) Marin Community Foundation

- Internally managed loan fund with \$17 million in assets and no defaults over 15 years
- Provides loans to nonprofits and affordable housing and community redevelopment developers operating in Marin
- Offered as one of six investment pools available to donors
- Donors choose term (1-4 years) and interest rates (1.5-2.5%)
- \$50,000 minimum investment

2) RSF Social Finance

- \$45 million mission investment program for donors advisors
- 3 investment pools to choose from
 - ▣ Impact Portfolio: Market rate, endowment style portfolio diversified across asset classes and issue areas
 - ▣ Liquidity Portfolio: Market rate liquid portfolio comprised of cash deposits in community and environmental banks and fixed income securities
 - ▣ Transformation Portfolio: Below-market rate portfolio comprised of highly catalytic intermediaries and direct transactions

3) Greater Cincinnati

- Initial five impact investments totaling \$3 million made from discretionary funds
- During three focus groups, donors expressed preference for participating on a deal by deal basis
- Developed process for engaging donors in new impact investments
- Eventually, expects to offer an impact investment pool to donors



Deal Examples

Enterprise Community Partners Multi-Family

Energy Retrofit: *SF Foundation & Hull Family Foundation*

Overview

- 3% 10-year loan
- \$250,000 from each investor
- Proceeds pay for energy retrofits in common areas of multi-family housing properties across 5 counties in SF Bay Area

What Makes it Work

- Federal and state energy retrofit subsidies
- Energy audits paid for by Enterprise
- Grants from foundations to fund first loss reserve fund
- Loan repayment guaranteed by Enterprise
- Co-investment from local family foundation

Update

- First loans to affordable housing owners being made 12 months after closing due to challenges securing matching subsidies

Opportunity Fund: *San Francisco Foundation*

Overview

- \$500,000 5-year loan @ 3% to non-profit microlending revolving loan fund intermediary with net assets of \$6.8 million
- Proceeds would be used to on-lend to small business entrepreneurs in the SF Bay Area

What Makes it Work

- Track-record of successfully lending to micro business owners: 930 loans / \$10 million since 1995 with a net loss of 2 - 4%
- Loan loss reserve of 7.5% of outstanding loans and access to a state loan guarantee program for micro-loans
- Strong loan underwriting and technical assistance have successfully reduced loan losses

Update

- Micro loan processing operations has been automated increasing cost-efficient in loan origination and processing
- Debt service payments are current

Equity investments in local bio and information tech companies through a local venture fund

Cincy Tech: *Greater Cincinnati Foundation*

Overview

- \$500,000 equity investment in a locally-managed \$10.4 million venture fund investing in start-up and early stage information and bio-technology companies in southwestern Ohio

What Makes it Work

- Professionally managed firm with networks and experience necessary to identify and invest in early-stage companies
- Networks include local angel investor network, hospital systems, and University of Cincinnati
- State of OH Third Frontier Fund is an investor

Update

- Cincy Tech's co-investors have invested more than \$26 million in the fund's 10 portfolio companies
- 200 jobs created since 2007 with an average annual wage of \$58,000
- A number of high net worth angel and foundation investors are interested in partnering w/ GCF on impact investments

Real Estate Development w/ DAF Assets: *Baton Rouge* *Area Foundation – Wilbur Marvin Foundation*

Overview

- Leverages real estate assets contributed by a major donor to revitalize under-invested neighborhoods in Baton Rouge
- Invested over \$180 million to develop a range of properties, including shopping malls, an historic hotel and office buildings
- 3,500 jobs have been created, 88% of office & retail space has been leased

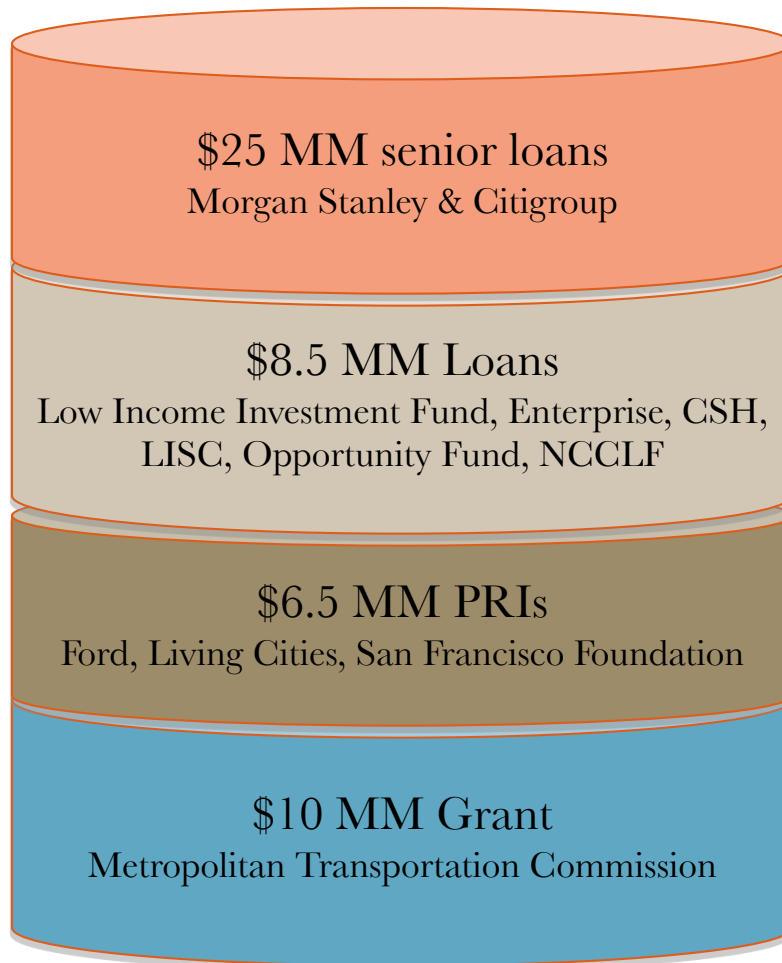
What Makes it Work

- Started with real estate assets contributed by a donor that is managed out of a supporting organization
- Hired a commercial development and property management team to develop and manage properties

Potential to Engage Donors

- Could offer participations in its real estate projects to donor advisors on a project-by-project basis or as a pool

SF Bay Area Transit Oriented Affordable Housing Fund



- Approx. \$150,000 in grants & \$500,000 in impact investments from SF Foundation leveraged
- \$49.5MM in private, public & philanthropic capital



Process

Getting Started

- Develop strategy based on organizational context, mission objectives, and financial parameters
- Create policies and governance for sourcing, vetting, underwriting, and structuring investments
- Identify investment universe, develop pipeline of investable opportunities
- Allocate discretionary funds (if available)
- Engage donors through one-on-one conversations and/or focus groups. Focus on concrete examples.

Product / Toolkit

- Developed based on work with at least five community foundations
- Provide content for donor focus groups
 - ▣ Impact investing “primers”
 - ▣ Concrete, relevant examples
 - ▣ Term sheets outlining potential participation structures
- Results will be basis for toolkit (tools, templates, structures, reporting, etc.)
- Provide ongoing technical assistance in using toolkits

Foundation Participants

- Participating foundations are being chosen based on:
 - Buy-in/support from CEO and Board
 - Impact investing as a useful tool for the foundation
 - Impact investing as an option to offer donors
 - Have made or are in the process of making one or more impact investments out of discretionary or donor funds
 - Willingness to devote required human resources
 - To identify likely donors
 - To organize meetings with donors
 - To help identify potential impact investment opportunities

Questions? Interest? Additions?

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