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

Donor Capital

Below market

Discretionary Capital

Market

Calvert Cincinnati
Marin

RSF
Calvert

San Francisco
California
Cincinnati

Vermont
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

**Energy Efficiency Retrofit Pilot for Affordable Housing**
Opportunity Fund: *San Francisco Foundation*

**Overview**
- $500,000 5-year loan at 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

Loans for micro-enterprises – job creation and entrepreneurship
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

- $25 MM senior loans
  Morgan Stanley & Citigroup

- $8.5 MM Loans
  Low Income Investment Fund, Enterprise, CSH, LISC, Opportunity Fund, NCCLF

- $6.5 MM PRIs
  Ford, Living Cities, San Francisco Foundation

- $10 MM Grant
  Metropolitan Transportation Commission

- 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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