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Charitable Impact Investments

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Description: Impact Investing

- **Using capital to address social and environmental challenges, while achieving financial return profiles**
- **Leveraging philanthropic assets and attracting new donors**
 - The opportunity to have greater impact on communities we serve
- **Providing another ACF tool for donors and their advisors to further the donor's values**



Why Impact Investing and Community Foundations?

- **Beyond grants: new financial and social tools to deploy donor assets**
- **Leverage scarce resources**
- **Recycle investment capital vs. grants**
- **Catalyze additional investment**
- **Build business acumen of nonprofit leadership**
- **Greater community impact in multiple sectors**

If 10% of DAF assets in 35 community foundations were allocated, nearly \$1 billion could be catalyzed for Impact Investing.



Why Impact Investing and Community Foundations?

- **Assist the service provider community with intellectual property and broader product offerings for their clients**
- **Make programs more powerful through a combination of grants and impact investing**
- **Donor demand**
 - More entrepreneurial and investment-minded donors
 - Generational shift
- **Competitive positioning vs. national donor advised funds**
- **Broader trend advancing practice of impact investing**



Impact Investing Strategies

Program-Related Investing (PRI):

- **Low-interest, higher risk loans to nonprofits**
- **Capital may come from grantmaking/discretionary dollars**
 - Contract financing, while awaiting receipt of government funds or working capital loans made against some form of security
 - Longer-term loans for buildings and equipment
 - Intermediary loans to entities that re-loan funds to nonprofits such as LISC or the AZ Multibank CDC
 - These funds are usually out of the program side

5



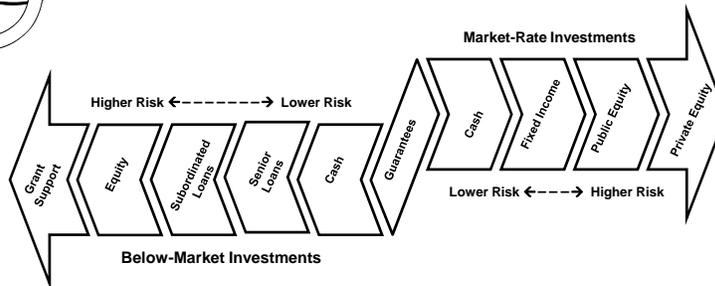
Impact Investing Strategies

Mission-Related Investing (MRI):

- **Higher interest rates/ROI, market rates where possible**
- **Capital may come from endowed asset pool**
 - Permanent financing for our affordable housing projects: 20-year fixed rate loans at market rates
 - Participating in bank loans for mission-related organizations, such as the request from the UA for its Cancer Center in Phoenix
 - These funds are usually out of the investing side

6

Impact Investment Continuum



Guarantees are the exception, as their risk level depends on how they are structured.

Why Impact Investing for ACF?

- **Consistent with our mission “to lead, serve and collaborate to mobilize enduring philanthropy for a better Arizona.”**
- **Furtheres our Business Plan goal to “provide differentiated and creative social investment and funding options to suit the entrepreneurial donor...”**
- **Creative use of limited charitable capital to leverage greater funding, making dollars go further**
- **Achieves both a social return and a financial return**

ACF and Impact Investing

- **ACF has already launched its first PRI with the Affordable Housing Fund**
 - 19 zero-interest loans totaling \$1 million
 - Leveraging \$80M in housing



ACF fund leverages gifts to help make rentals affordable

WASHINGTON—The Affordable Housing Fund, a new program of the U.S. Department of Housing and Urban Development, is helping to make rental housing more affordable for low-income families. The fund leverages gifts from private donors to provide zero-interest loans to developers of affordable rental housing. The fund has already provided \$1 million in loans to 19 projects, which will create 1,000 new affordable rental units. The fund is expected to provide \$80 million in loans over the next five years.



Focus Areas and Approaches Under Consideration

- **Charter school growth management**
- **Affordable housing construction**
- **New market venture partners**
- **Federal grant leverage for early stage technology funds**
- **Nonprofit loan funds for affordable housing, economic development and job creation, arts and culture, education**

Possible 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 alongside foundation on a deal-by-deal basis
- Individual investments held in each DAF account
- Greater Cincinnati

11

Examples



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**

13



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)**
- **Allocated across each of the four investment pools available to donors**

14



RSF Social Finance

- **\$45 million mission investment program for donor advisors**
- **Three 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

15



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**

16

SF Foundation and Hull Family Foundation

Energy Efficiency Retrofit Pilot for Affordable Housing Enterprise Community Partners Multi-Family Energy Retrofit

Overview

- 3% 10-year loan
- \$250,000 from each investor
- Proceeds pay for energy retrofits in common areas of multifamily 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

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**

Questions and Comments

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Thank you!

