THE BOTTOM LINE

INVESTING FOR IMPACT ON ECONOMIC MOBILITY IN THE U.S.

THE ASPEN INSTITUTE

This project was made possible with the generous support of the W.K. Kellogg Foundation.

ASCEND AT THE ASPEN INSTITUTE

Ascend at the Aspen Institute is the national hub for breakthrough ideas and collaborations that move children and their parents toward educational success and economic security. Ascend takes a two-generation approach to its work — focusing on children and their parents together — and it brings a gender and racial equity lens to its analysis. Ascend believes that early childhood and postsecondary education, economic assets, social capital, and health and well-being are the core elements that create an intergenerational cycle of opportunity. As a new model of social innovation, Ascend at the Aspen Institute is engaged in three strategies:

- Elevating and investing in two-generation programs, policies, and community solutions;
- Building a network of diverse leaders through a national fellowship program and a learning network; and
- Engaging the perspectives, strengths, and resilience of low-income families to inform programs and policies.

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PROGRAM ON PHILANTHROPY AND SOCIAL INNOVATION AND THE IMPACT ECONOMY INITIATIVE

The Aspen Institute's Program on Philanthropy and Social Innovation (PSI) seeks to inform and maximize the impact of philanthropists, social investors, and the organizations they support. The program's theory of change rests on the premise that if leaders have clarity about their values, are collaborative in their approach to problem-solving, and are aware of the strategies and potential partnerships available to them, they are more likely to succeed in advancing the social good.

PSI's Impact Economy Initiative, which was launched in 2010, seeks to build and assess models for investments and enterprises that generate both financial profit and positive social or environmental returns. Learn more at www.aspeninstitute.org/psi

PARTNER: GEORGETOWN UNIVERSITY MCDONOUGH SCHOOL OF BUSINESS GLOBAL SOCIAL ENTERPRISE INITIATIVE

The Global Social Enterprise Initiative at Georgetown's McDonough School of Business aims to prepare current and future leaders to make responsible management decisions that yield both economic and social value. Through practical training for global business leaders, the initiative promotes transformative solutions to and impactful investments in the world's significant challenges in health and well-being, economic growth, the environment and international development.

Learn more at http://socialenterprise.georgetown.edu

FOREWORD

There is no greater challenge in the United States today than income inequality. It has been 50 years since the War on Poverty began. We have made progress but not enough. More than 32 million children live in low-income families, and racial and gender gaps persist. For the first time, Americans do not believe life will be better for the next generation. We have both a moral and an economic imperative to fuel social and economic mobility in this country.

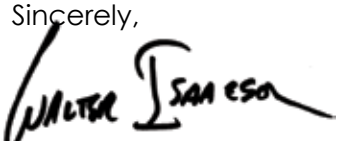
The Aspen Institute was founded in 1950 as a place to address the critical issues of our time. Today, ensuring that the American dream can be a possibility for all and be passed from one generation to the next is that issue. This commitment is at the heart of the work of many policy programs at the Aspen Institute. Ending the cycle of poverty requires leadership and hard work across all sectors, from nonprofit organizations, philanthropies, and academia to the government and private sector.

The Bottom Line: Investing for Impact on Economic Mobility in the U.S. recognizes the importance of learning from all sectors in tackling any challenge. Specifically, it builds on opportunities in the growing impact investment field. The report draws on the lessons from market-based approaches to identify tools and strategies that can help move the needle on family economic security. In this report, you will find the following:

- Case studies – An opportunity to go under the hood on deals with the Bank of America, W.K. Kellogg Foundation, Acelero Learning, and others;
- Point of view essays – Insights and lessons from leaders in the field;
- Deals at a glance – Snapshots of impact investors and what they have learned, including the Kresge Foundation, Living Cities, and the MacArthur Foundation; and
- Survey results and lessons learned – Trends among active and emerging players in the U.S. impact investment field and the lessons that can be applied to economic mobility in the U.S.

We are pleased to offer this expanded perspective on impact investing in the U.S. and the lessons for investors, philanthropists, and non-profits working to build strong and prosperous families and communities.

Sincerely,



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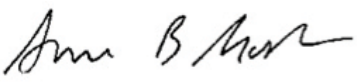

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WHAT YOU WILL FIND IN THIS REPORT:

- **Aspen Institute and Georgetown University Survey –** Findings and analysis of a survey of active and emerging impact investors;
- **Case studies –** An opportunity to go under the hood on deals with the Bank of America, W.K. Kellogg Foundation, Acelero Learning, and others;
- **Point of view essays –** Insights and lessons from leaders in the field;
- **Deals at a glance –** Snapshots of impact investors and what they have learned;
- **In-depth chapters on investments in education, economic assets, and health and well-being –** Investment areas with the potential to advance economic and social mobility for low-income families. In each of these chapters you will find key facts, investment examples, lessons learned, and recommendations; and
- **Appendices –** Investor and sample investment profiles from the Aspen Institute survey and a glossary of key terms.

EXECUTIVE SUMMARY

As a country, we have long believed in the "American Dream" – through hard work and opportunity, we can reach our goals. But with millions struggling, those dreams are being eroded. Social and economic mobility has stagnated, and inequality is rising. Not only are families at risk but so is our nation's economic security.

Interest in the field of impact investing has skyrocketed. Potential market size, amount of available capital, and the opportunity for financial and social impact, particularly for our country's most pressing problems, are all factors in that growth. This report and accompanying survey were designed to explore the landscape and lessons learned of this growing field in the United States, with a focus on deal flow and returns. We paid special attention to investments in education, economic assets, and health and well-being, investment areas with the potential to advance economic and social mobility for low-income families.

Adding rich depth and perspective throughout the report are the following:

- Case studies – An opportunity to go under the hood on deals with the Bank of America, W.K. Kellogg Foundation, Acelero Learning, and others;
- Point of view essays – Insights and lessons from leaders in the field; and
- Deals at a glance – Snapshots of impact investors and what they have learned.

Guiding research questions:

- What is the current level of investment activity and interest in the U.S. related to education, economic security, and health and well-being?
- What tools, strategies, and models can be distilled from early investments that could lead to better results for children and families?
- How can strategies be effectively shared with on-the-ground innovators, foundations, policy makers, and impact investors?

Aspen Institute and Georgetown University Impact Investing Survey

In partnership with the Georgetown University McDonough School of Business, the Aspen Institute conducted a survey of investors to assess activity and interest in impact investing in the U.S., with an emphasis on investments in education, economic assets, and health and well-being. Thirty-nine individuals responded, representing 32 institutional investors from across investor types.

Nearly 69 percent of respondents invest in the study's target impact areas of education, economic assets, and health and well-being.

- For these respondents, impact investing is not a new practice. Sixty-four percent indicated they have been active impact investors for more than 10 years.
- Their work is overwhelmingly backed by an institutional commitment to poverty (86 percent). Furthermore, 32 percent reported employing a gender lens in the investment decision process, while 27 percent reported having a racial equity lens.

Among all respondents, the average investment transaction size varied from less than $100,000 to more than $10 million. Of target impact area investors, the majority of respondents indicated an average transaction size between $100,000 and $3 million.

The majority of investments are delivered via funds or intermediaries.

An increasing number of foundations are active impact investors. Private sector players, such as Goldman Sachs, Bank of America, and Morgan Stanley, are developing business units dedicated to impact investing.

As with venture capital, a majority of impact investors find deal flow from peers and other investors.

Forty-five percent of respondents establish formal financial and social benchmarks, and 80 percent of those said their portfolios are meeting or exceeding the established financial metrics, and 90 percent are meeting or exceeding the social metrics. This provides evidence that good deals exist.

The Aspen Institute used the survey to gauge how investors' work supported economic and social mobility. We noted the following trends in advancing mobility:

- A majority of respondents are investing in target areas that support low-income families and those most in need.
- Significant dollars are supporting strategies to build mobility.
- Investors are leveraging varied organizational structures to facilitate impact on parents, children, and families.
- The pipeline for investments is based on social capital (trusted networks and relationships).
- Good deals exist to advance economic mobility for U.S. families.

Looking at the field as a whole, the top five trends among impact investors include:

- Increased market players – moving beyond private foundations;
- Foundations moving from experimentation to institutionalization;
- Focus on 'place';
- Leveraging CDFIs to increase efficiency; and
- Emerging interest in metrics.

Focus on education, economic assets, and health and well-being:
Outlined in the report are in-depth sections on education, economic assets, and health and well-being. Opportunities in those investment areas are highlighted below.

Education:
- Investing beyond school infrastructure to educational outcomes;
- Focusing on quality and efficiency; and
- Leveraging intermediaries to deploy large amounts of capital effectively.

Economic assets:
- Using diverse forms of capital to initiate and sustain economic opportunity;
- Collaborating to invest in local ecosystems; and
- Leveraging data to scale what works and eliminate barriers.

Health:
- Reducing disparities in access and quality of care;
- Managing the costs of care; and
- Investing in health systems.

Enabling policy environment:
Federal, state, and local governments are increasingly finding alignment with the goals of impact investors, leveraging a variety of policy levers, such as tax credits, co-investments, and procurement policies to drive improved outcomes for parents and children in communities across the country.

INTRODUCTION

IN THIS SECTION:

- Setting the stage: a nation at risk, yet optimistic and resilient
- Goals, guiding research questions, and content outline

When Tameka Henry began searching for preschool programs for her daughter, she was not familiar with Head Start or the achievement gap. Raised by a single mother, she knew that hard work and a quality education would be key to breaking the cycle of poverty for her family. Henry soon found Acelero Learning, a for-profit social enterprise that is committed to closing the achievement gap for children and families served by Head Start Programs.

At Acelero Learning, she not only learned about the achievement gap but also how she, as a parent, could help close the gap for her children. Since leaving Acelero Learning, Henry's daughter has been a straight-A student. When she was in the fourth grade, she was reading at a sixth grade level.

Founded by Aaron Lieberman and Henry Wilde, Acelero Learning is a prime example of how both financial and human resources from across sectors can be leveraged to design and employ a market-based approach to improving outcomes for low-income children and families in the U.S. It serves 5,000 low-income children directly, preparing them to enter kindergarten, and another 20,000 benefit from Acelero Learning's tools, training, and resources.

Lieberman and Wilde combined their business acumen with their experience in education to apply a fresh perspective on how to close the achievement gap. Both foundation and traditional investors provided capital to help test, refine, and scale the model.

The buzz around impact investing and social entrepreneurship has grown, with the appeal cutting across sectors. Philanthropists seek new ways to use their capital effectively and complement their existing grant-making efforts. Faced with shrinking budgets, public agencies need ways to cut costs while meeting public needs. Private financial institutions note growing consumer interest in financial products and investment strategies that are aligned with their values.

My story started like the story of many Acelero Learning parents. My mother was a single parent. She worked for about 30 years in parks and recreation and then in the human resources department with the county off and on. I remember how hard she worked to provide for me. And I remember that she never spoke about going to college.

- Tameka Henry, Acelero parent and Board Member, National Head Start Association

At the same time, on-the-ground innovators have new ideas for solutions that are less reliant on traditional philanthropy and better able to reach their target populations. At the nexus of these trends is the opportunity to use market-based approaches and resources to advance equality and opportunity for low-income families in the United States. This publication, produced with the generous support of the W.K. Kellogg Foundation, examines the lessons from impact investing and identifies tools, strategies, and models that can be used to help break the cycle of intergenerational poverty.

A NATION AT RISK

As a country, we have long believed in the "American Dream" – through hard work and opportunity, we can reach our goals. But with millions struggling, those dreams are being eroded. This stagnating mobility and rising inequality

State of Low-Income Families in the U.S.

- **Economic Mobility:** Today, nearly 45 percent — more than 32 million children — live in low-income families ($44,700 for a family of four in 2012), and one in four lives in poverty ($22,050 for a family of four).[i] In the United States, once a child is born into the bottom income level, it is unlikely he or she will be able to move up.[ii] About 65 percent of Black, American Indian, and Hispanic children live in low-income families.[iii] Together, these groups represent 56 percent of children living in low-income families.[iv]
- **Educational Attainment:** In 2011, 62 percent of children under 18 lived in a household in which the highest level of adult education was a high school diploma or less, and 37 percent of Hispanic children live in families where the household head does not have a high school diploma.[v] Almost two-thirds of adults who never finished high school and one-third of those with just a high school diploma are low-income.[vi] Parents' level of educational attainment is the best predictor of economic mobility for their children.[vii]
- **Health and Well-Being:** In 2012, 6.2 percent of the U.S population failed to obtain medical care due to cost.[viii] Children of low-income, uninsured parents are three times more likely to be uninsured themselves, and more likely to experience difficulties accessing needed care than children with insured parents.[ix] Parents' own health care use is strongly related to their children's use; insured children with uninsured parents are less likely to have seen a physician in the past year.[x]

puts not only families at risk but also our nation's economic security.

The economic risks are as clear as the moral ones:

- **Cost of Child Poverty:** Child poverty costs the U.S. economy more than $500 billion annually in lost productivity, increased health care costs, and higher criminal justice expenditures.[xi]
- **Growing the Labor Force:** Over the next 30 years, the working age (16 to 64) population is projected to grow less than half as fast as it did over the preceding 30 years. With the Baby Boom generation reaching retirement age and a significant number of discouraged working-age individuals no longer actively seeking work, providing access to education and skill development for low-income individuals can have profound effects on our long-term economic growth.[xii]
- **Purchasing Power:** A strong middle class provides stable demand for goods and services, which is necessary for economic growth.
- **Expanding the Tax Base:** The labor force is increasingly turning to the informal economy, with current estimates valued at $2 trillion in unreported economic activity, resulting in $500 billion in unpaid taxes to the government.[xiii]
- **Public Savings:** Investments in high-quality early childhood education yield a 7-10 percent annual return on investment based on increased school and career achievement as well as reduced social costs.[xiv]

OPTIMISM AND RESILIENCE

Despite the challenges, there is reason for optimism. There are signs of an economic recovery:

- **Unemployment Rate Drop:** In November 2014, the unemployment rate dropped to 5.8 percent, the lowest rate seen since September 2008. The number of jobs added at 321,000 represented the strongest month of hiring since January 2012.[xv]
- **Stock Market Gains:** The stock market is also showing positive signs of recovery. The Dow Jones industrial average closed above 17,000 for the first time in June 2014, while Standard & Poor's 500-stock index recorded a new high.[xvi]
- **Housing Industry:** The real estate market is gradually normalizing after the recession, with rising sales and home prices that have reached 2005 levels again.[xvii] However, rising prices

are due to lower inventory rather than demand, which is still hampered by sluggish wage and employment growth.

Parents and children across the nation also exhibit tremendous resilience. In a 2013 bipartisan public opinion research project, *Voices for Two-Generation Success*, commissioned by Ascend at the Aspen Institute and conducted by Lake Research Partners and Chesapeake Beach Consulting, the following key watchwords emerged from conversations with moderate- and low-income mothers and children:

- **Stability:** Single and married mothers alike seek financial stability.
- **Independence:** Both parents and children see independence and self-confidence as key ingredients to success.
- **Optimism:** Despite challenges, parents and children remain optimistic about their futures.

Building family economic security is a complicated issue, and there is no silver bullet. We must build on the positive economic trends and resiliency of our communities to design solutions that cross issues and sectors. We need government, philanthropy, on-the-ground innovators, and the private sector working together.

REPORT GOALS AND GUIDING QUESTIONS

The private, public, and social sectors collectively hold a significant amount of human and financial resources. When these resources are coordinated and deployed strategically, tremendous change is possible. However, the impact investment field is nascent, and we have a great deal to learn about the potential role of each player and use of the available financial tools.

Interest in the field of impact investing has skyrocketed. Potential market size, amount of available capital, and the opportunity for financial and social impact, particularly for our country's most pressing problems, are all factors in that growth. This report and accompanying survey were designed to explore the landscape of this growing field in the United States, with special attention to deal flow and returns. We focused on investments in education, economic assets, and health and well-being, investment areas with the potential to advance economic and social mobility for low-income families.

Be yourself, be strong, keep your dreams, and never give up. …Always stay focused and never give up on whatever they want to do in life.

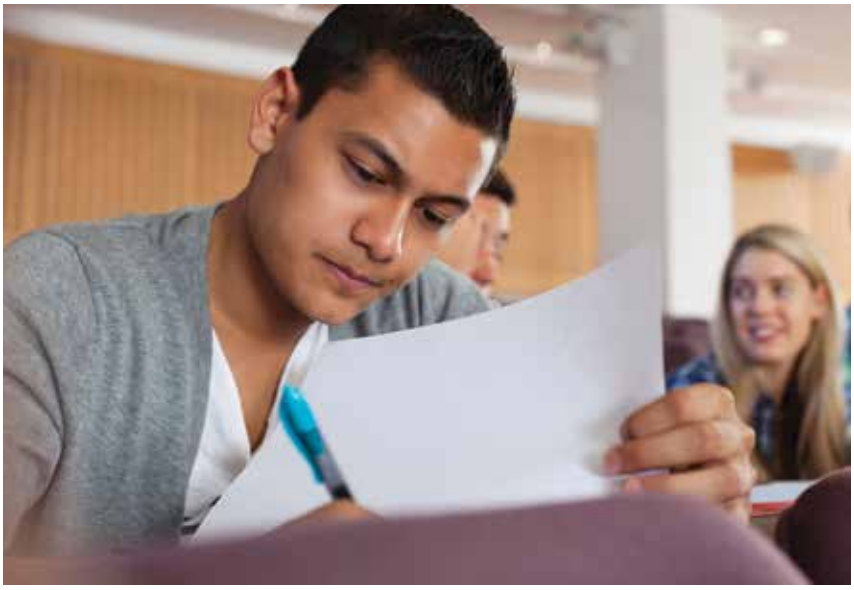
- Low-income Latina mother, Denver, Colorado

The guiding research questions were the following:

- What is the current level of investment activity and interest in the U.S. related to education, economic security, and health and well-being?
- What tools, strategies, and models can be distilled from early investments that could lead to better results for children and families?
- How can strategies be effectively shared with on-the-ground innovators, foundations, policy makers, and impact investors?

The recommendations in this report are based on data and insights gathered from the following:

- Literature review;
- Survey of active and emerging investors;
- Interviews with key leaders; and
- Roundtable discussions, including one focused on pay-for-success models and early childhood.



CASE STUDIES, POINT OF VIEW ESSAYS, DEALS AT A GLANCE

Adding rich depth and perspective throughout the report are the following:

- An opportunity to go under the hood on deals with the Bank of America, W.K. Kellogg Foundation, Acelero Learning, and others;
- Point of view essays – Insights and lessons from leaders in the field; and
- Deals at a glance – Snapshots of impact investors and what they have learned.[1]

This report looks beyond the hype and expectations of the field to assess what tools, strategies, and models can be practically applied to drive innovation and scale proven solutions to building family economic security.

[1] *The report authors selected investments that offered market-based lessons in building family economic security.*

IN THIS SECTION:

- Survey results and analysis
- Trends in building family economic security
- Beyond the survey: trends in the field

ASPEN INSTITUTE – GEORGETOWN UNIVERSITY SURVEY

In partnership with the Georgetown University McDonough School of Business, the Aspen Institute conducted a survey of investors to assess activity and interest in impact investing in the U.S., with an emphasis on investments in education, economic assets, and health and well-being.[2]

Target respondents included:

- Private and community foundations;
- Boutique investment funds;
- Private financial institutions; and
- Private wealth managers and institutional consultants.

The survey captured data along six dimensions:

Portfolio: Source of capital as well as portfolio characteristics
Social impact focus: Investors and investments who are actively investing in the target impact areas (education, economic assets, and health)
Social and financial performance metrics: Metrics and tools used to evaluate investment performance and their effectiveness
Investment pipeline and deal flow: Sources of deal flow and internal assessment process for making investments
Lessons learned and course corrections: Effective strategies and practices as well as challenges and gaps
Policy implications and regulatory environment: How policy influences strategies and decisions

Respondent Profile:

- Thirty-nine individuals responded, representing 32 institutional investors across investor types.
- Nearly 69 percent of respondents invest in the study's target impact areas (education, economic assets, and health).

Target Impact Area Investors: The subset of respondents investing in the target impact areas (education, economic assets, and health) reflects the overall sample's composition by investor type.

Impact investing is not a new practice for the majority of these investors. Sixty-four percent (14 of 22) of active investors in these impact areas indicated that they have been active impact investors for more than 10 years. Twenty-seven percent (6 of 22) have been investing for one to five years, and one has been investing for less than one year.

Endowment size or assets under management varied among the investors.

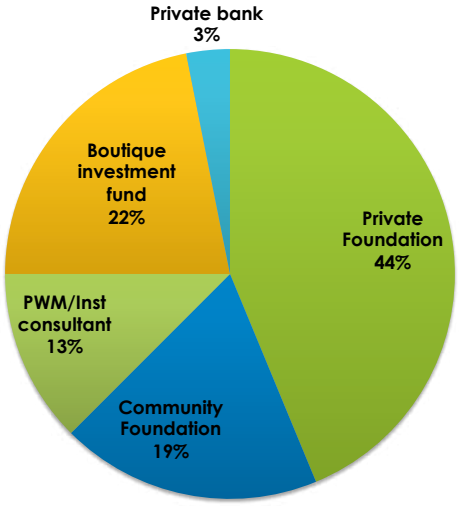
Investment Methods: The majority of investments made by respondents are direct investments followed by investments in funds. A slightly larger percentage of target impact area investors use fund of funds or intermediaries compared to the greater sample of investors active in the U.S.

Average Investment Size: Among respondents, the average investment transaction size varied from less than $100,000 to over $10 million. Of target impact area investors, the majority of respondents indicated an average transaction size between $100,000 and $3 million.

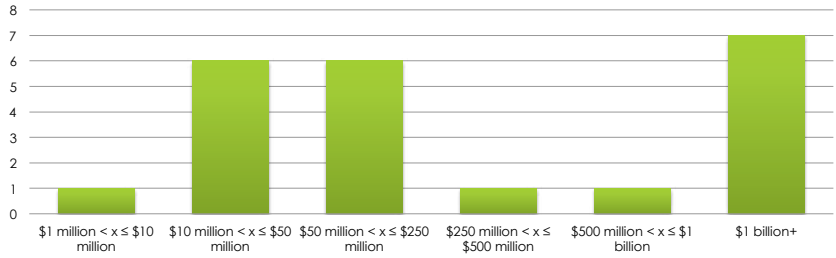
[2] *The list of survey respondents is available in the appendix.*

39 individuals responded representing 32 institutional investors from across investor types

All Survey Respondents by Investor Type (n=32)



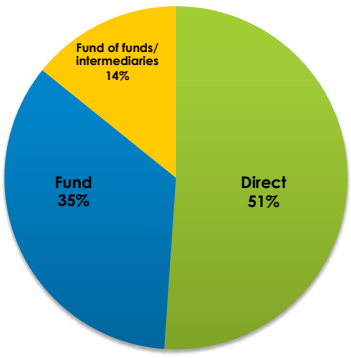
Endowment or Assets Under Management Size for Target Impact Area Investors (n = 22)



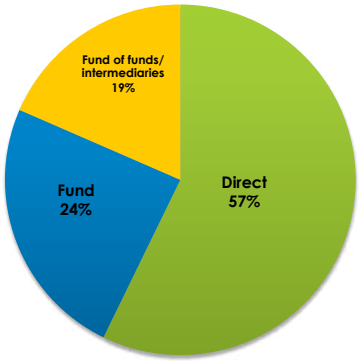
The majority of investments made by respondents are direct investments followed by investments in funds.

A slightly larger percentage of target impact area investors use fund of funds/intermediaries as compared to the greater sample of all investors active in the U.S.

Direct vs. Indirect Investments by Active U.S. Investors (n = 20)



Direct vs. Indirect Investments for Target Impact Area Investors (n=17)



Investment Preferences: Non-foundation investors in target impact areas characterize a significantly higher percentage of investments (49 percent) as market-rate compared to foundations (18 percent). Target impact area investors tend to favor ventures that are beyond the proof-of-concept stage.

Investment Perspectives: Target impact area investors are overwhelmingly backed by an institutional commitment to poverty (86 percent). Furthermore, 32 percent reported employing a gender lens in the investment decision process, while 27 percent reported having a racial equity lens.

Education: Among survey respondents, the majority of investment interest and activity in education centers around K-12 and early childhood development.

Economic Assets: Economic asset investments attracted the majority of impact area investors (18 out of 22), who employed a wide range of investment types that help increase financial opportunities for families.

Health: Fourteen respondents invest in health and are seeking investment opportunities related to access to health services, nutrition, and health facilities financing.

OVERALL TRENDS RELATED TO BUILDING FAMILY ECONOMIC SECURITY

For the purposes of the survey, we examined investments in the areas of education, health, and economic security and inquired about the investor commitment to gender, racial equity, and poverty. We noted the following trends in advancing mobility:

- A majority of respondents invest in target areas that support low-income families and those most in need.
- Significant dollars support strategies that build mobility.
- Investors leverage varied organizational structures to facilitate impact on parents, children, and families.
- The pipeline for investments is based on social capital (trusted networks and relationships.
- Good deals exist.

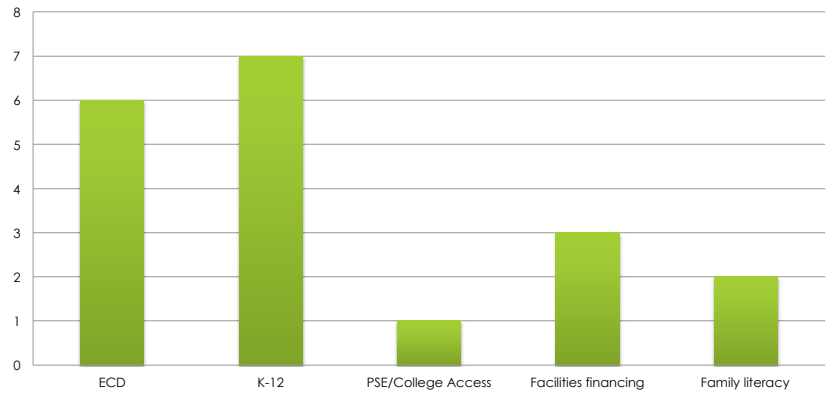
Investors are focusing on key issue areas to generate impact: The Aspen Institute used the survey to gauge the implicit or explicit work of investors to support economic and social mobility. The survey revealed that 69 percent of respondents invest in these areas. The majority of investments is delivered via fund of funds or intermediaries and span the U.S.

Significant dollars support strategies that build mobility: Survey respondents noted that they have committed $2.85 billion in impact investment capital in the U.S., with $2.52 billion coming from investors active in the target impact areas (i.e., education, economic assets, and health). This data speaks to the opportunity and support for investing throughout a sector, covering real estate, infrastructure, and human capital. For example, investors focused on health put a majority of their dollars in access to health services, food nutrition, and facilities financing.

Impact area investors leverage varied organizational structures: Investors active in the target areas place a larger percentage of their impact investments in non-profits than for-profits. Investors who indicated having active investments in education or

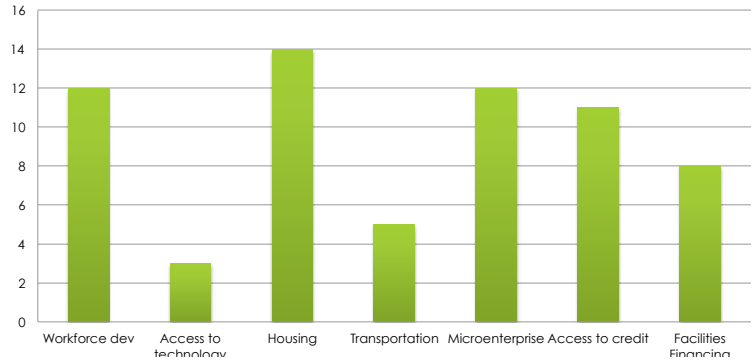
8 respondents reported investment interests and activity in education, mostly centered around K-12 and early childhood development opportunities.

Number of Respondents Investing in Sub-Impact Areas - Education



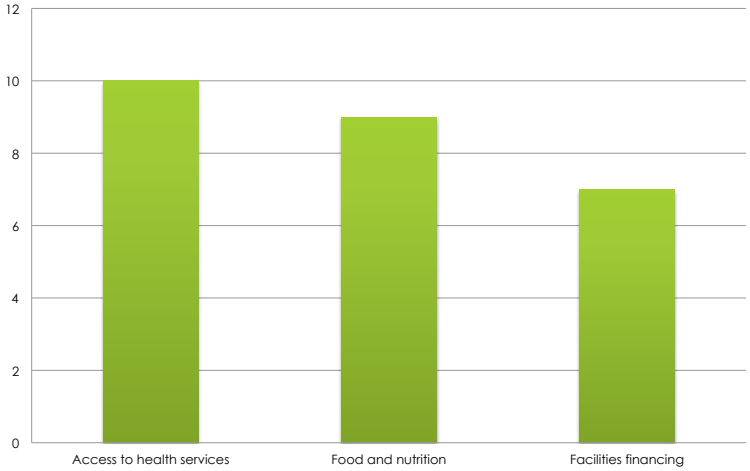
18 respondents invest in economic security.

Number of Investors Active in Sub-Impact Areas - Economic Security



14 respondents invest in health and are seeking investment opportunities related to access to health services, food and nutrition, and facilities financing.

Number of Investors Active in Sub-Impact Areas - Health

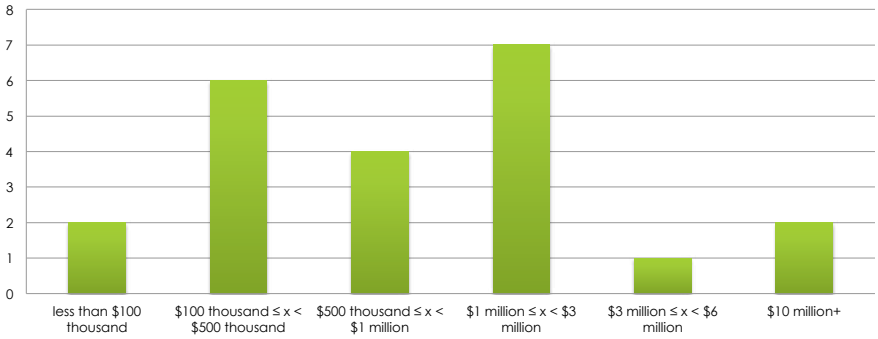


Average investment size

Average investment transaction size varies from less than $100 thousand to over $10 million.

Of target impact area investors, the majority of respondents indicated an average transaction size between $1M and $3M.

Average Transaction Size for Target Impact Area Investors (n = 17)

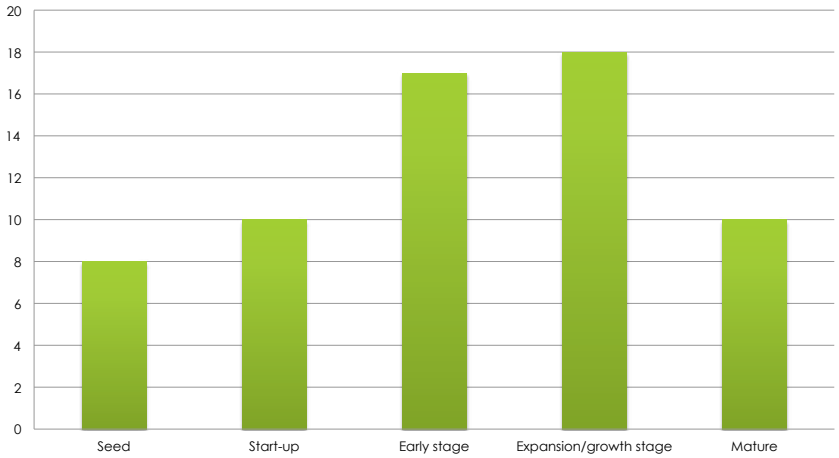


Average percentage of investments placed in for-profits vs. non-profits by investors active in target impact areas.

	Target Impact Areas	Education	Economic Security	Health and Well-Being
For-Profits	47%	55%	48%	66%
Non-Profits	53%	45%	52%	34%

Investors continue to favor ventures that are beyond the proof of concept stage.

Number of Respondents Investing in Venture Stage (Target Impact Area Investors Only)



health and well-being invest a higher average percentage of investments in for-profits compared to those who invest in economic security.

The pipeline for investments is based on social capital: As with venture capital, a majority of impact investors find deal flow from peers and other investors. In fact, 52 percent of respondents noted that personal networks were critical in advancing their impact agenda. Twenty-nine percent of respondents use professional networks, and 10 percent use intermediaries.

Good deals exist: Forty-five percent of target area investors establish formal financial and social benchmarks, and 80 percent of this group said their portfolios are meeting or exceeding the established financial metrics, and 90 percent are meeting or exceeding the social metrics. This provides evidence that good deals exist. During the course of the study, we asked respondents to share their most successful deals. Collectively, 13 respondents provided 33 "successful deals." This contradicts the concern about viable deal flow that warrants investment.

BEYOND THE SURVEY: TRENDS IN THE FIELD

Impact investing in the U.S. is transitioning from a phase of exploration and experimentation toward maturity. Demand for impact investment capital is shifting and moving beyond philanthropy toward market rate expectations. Signs of activity include the following:

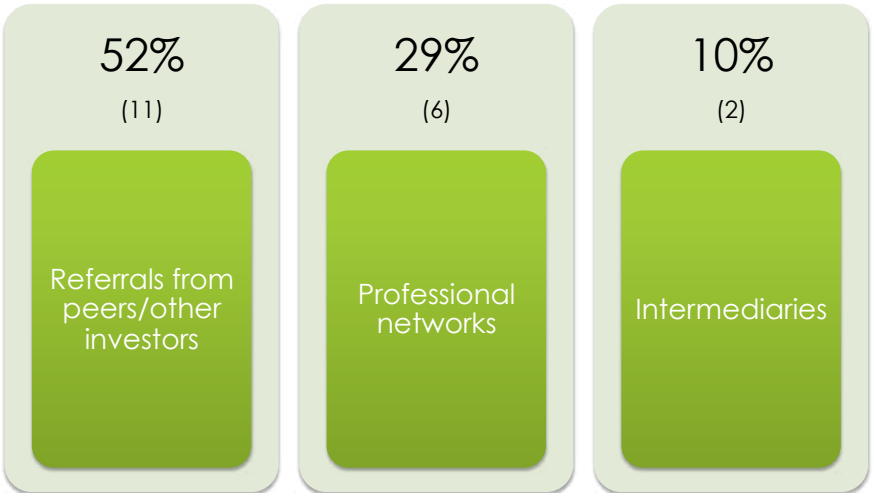
- An increasing number of foundations are becoming active impact investors. The

F.B. Heron Foundation began developing its mission-related investment strategy in 1997. In 2011, Heron made 100 percent of its resources available to invest toward its mission. The McKnight Foundation recently committed $200 million, representing 50 percent of its endowment toward its mission. The Silicon Valley Community Foundation and the Greater Cincinnati Community Foundation are among the community foundations that are incorporating impact investing to help address their communities' most pressing challenges.

- Private sector players, such as Goldman Sachs, Bank of America, and Morgan Stanley, are developing business units dedicated to impact investing. Goldman Sachs has been integral in developing and executing the early social impact bond/pay for success deals. Bank of America sees increased client interest in impact investing, as high-net-worth individuals are seeking ways to integrate their values with investment strategies.
- In 2011, the Small Business Administration made $1 billion available over five years to investment funds licensed as impact small business investment companies.
- Pay for success models are gaining interest, with five models underway to drive outcomes related to recidivism and early childhood education. They have attracted $50 million in private capital to the social sector. Other potential deals are in the exploratory phase and range from addressing asthma in children to low-birth weights.

Where are investors finding investments?

Target area impact investors reported **referrals from peers/other investors** as the primary source of identifying potential investments for their pipeline.

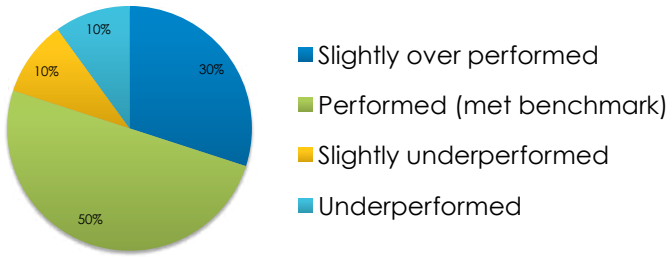


Financial Performance

45% of target impact area investors establish financial benchmarks.

50% indicated that their portfolios met financial benchmarks and 30% slightly over performed.

Target Impact Area Investors: Financial Performance (n = 10)



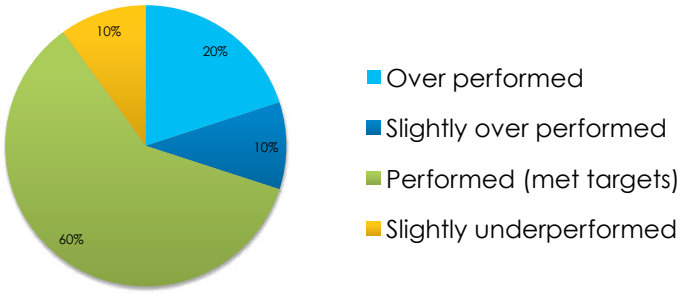
- The U.S. National Advisory Board (NAB) to the Global Social Impact Investment Taskforce was formed following the June 2013 G8 Social Impact Investment Forum in London. The NAB focuses on the U.S. domestic policy agenda and is comprised of 27 thought leaders, including private investors, entrepreneurs, foundations, academics, impact-oriented organizations, nonprofits, and intermediaries.

Social Impact Performance

45% of target impact area investors establish social impact benchmarks.

60% indicated that their portfolios met social impact benchmarks and 30% over performed.

Target Impact Area Investors: Social Performance (n = 10)



Based on our research, the top five trends among institutions related to impact investing in the U.S. include:

- Increasing market players – moving beyond private foundations;
- Foundations moving from experimentation to institutionalization;
- Focus on place;
- Leveraging Community Development Financial Institutions to increase efficiency; and
- Emerging interest in metrics.

Impact investing is not just for private foundations: Over the past one to two years, an increasing number of people have been engaging in impact investing. While a number of foundations have been investing for more than 10 years, more individuals and larger institutions have recently begun to enter the space. The Aspen Institute survey reflects this emerging interest — 56 percent of the respondents are not private foundations. Many of the new entrants remain cautious, but with new products like pay for success (or social impact bonds), coupled with the emergence of new funds focused on impact, there are now more options for consideration and portfolio diversification.

Foundations are moving from experimenting to institutionalizing: Foundations that have been doing this work are now increasing and institutionalizing their efforts. Historically, many "experimented" and made a few investments with no expectations of a return, often leveraging grant/program staff to add this work to their grant portfolios. Now, many foundations are thinking beyond silos, creating capacity on staff, and establishing training and internal systems to manage grants and investments in a formal and distinct way.

These new investments are very much aligned with their existing grant-making portfolios in terms of sector and/or geographic focus but now offer a broad range of investment tools to support impact on individuals and in communities. In fact, many institutions are supplementing investments with grant dollars to help increase capacity and reinforce larger investments in institutions or communities. It is important to note that part of this shift is due to incremental success that has enabled many board members of impact investing institutions to endorse and support more proactive investment strategies.

Increased focus on place: Another trend highlighted in the survey is an increase in focused, place-based efforts. Investments are no longer scattered across communities within a sector. Now investors are conscious of the power of place and the need to improve the interdependent systems that impact poverty rates, incarceration, and graduation statistics. Places like Detroit epitomize this investment thesis — placing concentrated and strategic investments across sectors in one place will generate significant economic, social, and environmental impact for all.

By leveraging new actors in the sector — like investment banks — to work with foundations with long track records and expertise in the community, stakeholders are betting on greater impact and return on investment.

Investors are leveraging community development financial institutions (CDFIs) to increase efficiency: Support for institutions and infrastructure must happen alongside investments in capital in place-based strategies. More impact investors — excited by the opportunity but still skeptical of scale — recognize that there is a limit to what they can do to ensure the success of these investments. Therefore many are relying on intermediaries — CDFIs and the like — to make investments, establish social capital, build trust, and leverage their unique understanding of the local ecosystem to drive smart investments that have impact. In the Aspen Institute survey, 58 percent of respondents noted that they use intermediaries or other funds to administer their investments.

There is an emerging interest in metrics: Many investors still await improved systems for tracking impact investing. However, while new tools emerge in the field that strike a balance between social and financial evaluation, many investors are developing their own metrics. As more than 50 percent of survey respondents give equal weight to social and financial metrics, many are baking metrics into the decision-making process, where the metrics are being created in partnership with the investee or receiving organization. They believe current market tools are insufficient. The proprietary tools allow for a focus on the return but recognize the need for patient capital and the interdependencies of policy, infrastructure, leadership, and investment, which all contribute to generating individual and community impact.

SURVEY RESPONDENTS

Arabella Advisors

The Annie E. Casey Foundation

Bank of America Merrill Lynch Capital Access Funds Management, LLC

Calvert Foundation

The CAPROCK Group

Civic Capital Group

The Community Foundation of Greater Greensboro

Community Foundation of the Holland/ Zeeland Area

Community Foundation for Muskegon County

DBL Investors

Elevar Equity

F.B. Heron Foundation

Ford Foundation

Habitat for Humanity International

i2 Capital Group

Island Foundation

The Kresge Foundation

The Lemelson Foundation

Mary Reynolds Babcock Foundation

Melville Charitable Trust

Meyer Memorial Trust

NewSchools Seed Fund

O.P. and W.E. Edwards Foundation

Phil Hardin Foundation

Piton Foundation

The Pittsburgh Foundation

Renewal Funds

Rockefeller & Co.

The San Francisco Foundation

Santa Fe Community Foundation

Virginia Community Capital

Wieboldt Foundation

• POINT OF VIEW •

ALL IN: REINVENTING WHAT A FOUNDATION CAN BE IN THE 21ST CENTURY

Clara Miller, President, The F.B. Heron Foundation

After 27 years running the Nonprofit Finance Fund, which she founded, Clara Miller was named president of The F.B. Heron Foundation in 2011. With the help and support of the Heron board and the staff, Miller went all in: expanding from 40 percent to 100 percent the foundation's commitment of financial resources invested in improving employment opportunities for those at the bottom of the economic ladder.

This radical change at Heron required restructuring the staff and implementing an array of new systems and programs to track, rate, and analyze investments.

Miller's life's journey has taken her around the world, up and down, giving her an artist's eye and a cool viewpoint with just enough irony to prevent her from being evangelical — but on the topic of impact investing, Miller comes close enough to believe that impact investing has the potential to change the world.

But not through philanthropy alone. The world-changing part becomes a possibility only when the entire economy is leveraged.

Miller points out that smart investment advisors following good business principles are already looking at impact investing as a way of mitigating risks — of making a return on those investments that lead to societal and environmental balance and that in turn help stabilize the world that these investors must invest (and live) in.

And when a portion of the American economy (and even a portion is enough to dwarf all of philanthropy's resources) is devoted to impact investing, the resources available for both avoiding and solving social problems will, for the first time, begin to match the size of those problems.

As that happens, as impact investment become standard in the investment world, Miller's thinking goes, then Heron can begin playing another role — as certifier, helping others find and monitor businesses and funds, continually seeking better results.

Clara Miller speaks about … reinventing what a foundation can be in the 21st century.

When I talked with Heron board members about being president of their foundation, they asked why I would want to leave the Nonprofit Finance Fund. I said I did not know if I did. I said if they were looking for someone who wanted to maintain the track record of this beloved institution that punched above its weight and continue its wonderful work, I wasn't that girl. But if they were interested in reinventing what a foundation could be in the 21st century, then I would be interested in that job.

To be clear, I did not come in saying we had to get rid of what Heron was doing. Quite the opposite. Heron had done social investing long before I came. Leadership there had already dedicated 40 percent of the endowment to mission investing, while 60 percent was conventionally invested. The people who were at Heron when I arrived were the same people who became part of rethinking our strategy and what the next chapter would be.

We started the reinvention by asking if we really were "helping people help themselves out of poverty," our mission. We admitted that with the absence of jobs in the mainstream, gains were undermined and the outlook was not good. So we asked ourselves, how can we have an impact on jobs?

Our approach was to look to the economy as a whole: All the assets of the foundation, across enterprise types, would be dedicated to mission. And when you declare that, as the basic fiduciary responsibility of a philanthropic institution, it changes other things. For example, it calls into question why you would have two staffs — a relatively small one making very large conventional investments and a larger one making small grants. Why not combine those into one staff making the best use of foundation dollars to achieve its mission?

Melding cultures: It's not warfare but not without complications.

If you had done our kind of culture melding at a large foundation like Rockefeller, there might have been outright warfare, or at least passive resistance. But we are not a large place. Folks at Heron who thought the changes we were making were completely insane found other jobs in a friendly way. And then the remainder, who had various types of experience, stayed to make this whole idea work.

When I got to Heron, we had 16 full-time slots with 14 filled. During the transition to 100 percent mission investing, we went down to seven (at our smallest) and now we have built back up to 14. As we get the people we need onboard, we will go back up to 17. The skill sets will be very different than they were before — for example, additional finance, analytical, and business experience. We are not saying generalists or subject matter experts are not needed. But we are much more likely to look outside the foundation to meet those needs. And that is intentional. We want to be dependent on others.

Merging the two investment programs — mission and conventional — was important to Miller for practical and philosophical reasons.

I think that making a distinction between mission and non-mission investing in "good" or "bad" enterprises can create a lot of practical and philosophical havoc. And at Heron I thought we could avoid that by consolidating both mission and non-mission investing — in one capital deployment effort. After all, the enterprises creating jobs and value are not exclusively nonprofit by any stretch, and if we were going to do all mission investing, across enterprise types, we needed to assess and track all investments the same way. And the skills required in investing funds in an enterprise are very much the same whether you are doing something social or something "anti-social."

"But-for" is the wrong argument.

Critics may think what we are doing is misguided because of the counterfactual "but-for" argument — "but-for what you did, something would not have happened." In other words, before you can call something philanthropic, you have

to say that your dollar caused something and that without your dollar that something would not have happened. Philanthropy is obsessed with claiming it can show how its dollar was the one that created a job or solved a social problem.

Which is fine as far as it goes. But we are saying we have to address the flow of problems by using the resources of the mainstream economy and not just government programs or foundation funders that are using 5 percent of their assets. Problems are too systemic, and it is not enough to try to solve systemic problems with marginal solutions. Philanthropy's primary tool is money, so why should philanthropy exclude its mission work from an economy based on money?

Miller's grand vision is an interconnected oneness with the investment community and the economy … with capitalism itself.

If every foundation in the world put all of its investments into impact investing, it would still amount to only about 1 percent of the assets under management. So we have to think of ways to be influential outside our own terrariums. We have to be part of the larger supply chain, the larger set of interactions available by investing with others across the spectrum — banks, foundations, individuals, private equity firms, and government on the investor side, and public companies, small businesses, governments, cooperatives, and nonprofits on the enterprise side. If our investment objectives favor companies with great financial and social performance, taken together, we will be influential if we find and back them and they succeed. We then gain standing to guide capital toward value for all.

We should encourage and hearten people in private companies who use the tools of commerce and enterprise to make the world a better place. And, in fact, creative people in mainstream corporations are doing just that and, I would argue, always have. More and more investors are finding these companies and investing. Such investors include those participating in the Global Alliance for Banking on Values and funds such as DBL Investors, who are looking for investable enterprises like Heron investees Craft3, Aseptia, Ecologic Brands, and the Sustainability Accounting Standards Board. You can see the full range of Heron investees on our website.

Impact investing can mitigate risk. And risks to investors and corporations are expanding because of gigantic, systemic upheavals all over the globe, like climate change. The best companies are reporting on such risks and are developing metrics and gathering data because they think these are material risks to shareholders. The good actors are getting out ahead of these risks by finding ways to mitigate them.

The same holds true for social risks created by wealth disparity, tragic levels of poverty, and chronic unemployment — all issues that impact investing can address.

From 100 percent mission investing to part of a global economic supply chain to a 21st century business model for foundations.

I am sure something could happen that would make me think what we are doing is not a good idea, but I am too unimaginative to know what that might be.

We are tracking social and financial impacts together. When it comes to reporting what we have accomplished, we will not say that our specific dollars had some exact impact. That is not the way commerce works, and, anyway, trying to do it leads to insanity.

The most critical dollars do not come from investors, but from customers providing income to meet payrolls, among other things. Thus, the idea that you can isolate and claim the effect of a given dollar on a given job or social benefit is foolhardy. We will say what we contributed to and that a successful company is a win. For example, we were among investors, each of whom put in, say, $10 million in a private equity fund, that invests in socially beneficial companies. And those companies were responsible for providing 100 jobs initially, and that increased to 5,000 jobs over the course of five years, thanks to the success of the company.

The investors' role is to fund the cost of growth and change. We succeed if we pick good funds and enterprises and make good deals that can help companies that provide good jobs and broad social value. We are part of the supply chain, not the main event.

The current foundation business model is from the mid-18th to late-19th century, and it is about conserving and protecting capital — not really about how to use capital to do social good. We think that the alternative 21st century business model should acknowledge that we are part of the market and that we have a very specific role in that market. We believe this will strengthen foundations' influence and effectiveness.

Eventually, rather than being concerned only about investing for ourselves, Heron could play the role of certifying for others promising funds and businesses that do not extract more than their share and are net positive contributors.
And when that happens … that would be kind of wonderful.

ABOUT THE AUTHOR

Prior to assuming the F.B. Heron Foundation's presidency in 2011, Clara Miller was President and CEO of Nonprofit Finance Fund which she founded and ran from 1984 to 2011. NFF serves as a "philanthropic bank" for both social sector organizations and their funders, and has invested and managed more than $1.5 billion in financing for social sector organizations.

In addition to serving on The F. B. Heron Foundation's board, Miller is on the boards of Family Independence Initiative, the Sustainability Accounting Standards Board, StoneCastle Financial Corp., and The Robert Sterling Clark Foundation. She is a member of the Social Investment Committee of the Kresge Foundation and the U.S. National Advisory Board to the G8 Social Impact Investment Task Force. In 2010 Miller became a member of the first Nonprofit Advisory Committee of the Financial Accounting Standards Board.

Miller was the inaugural laureate of the Prince's Prize for Innovative Philanthropy awarded in 2014 by the Prince Albert II of Monaco Foundation and the Tocqueville Foundation-Institute of France. She was named to The NonProfit Times "Power and Influence Top 50" for the five years from 2006 through 2010 and received a Bellagio Residency in 2010 by The Rockefeller Foundation.

• POINT OF VIEW •

THE MCKNIGHT FOUNDATION'S SECRET SAUCE

Kate Wolford, President, The McKnight Foundation

The McKnight Foundation, a Minnesota-based family foundation, has a $2 billion endowment that puts it in the top 25 largest privately held foundations in the U.S. The McKnight Foundation seeks to improve the quality of life for present and future generations through grantmaking, collaboration, and strategic policy reform in the following areas: arts, education and learning, environment, the region and communities, agricultural research, and neuroscience research.

In March 2014, The McKnight Foundation announced it would dedicate $200 million, or about 10 percent of its endowment assets, across four strands of impact investing with initial allocations of $50 million each:

- Mission-Related Investments (Public Markets)
- Mission-Related Investments (Private Markets)
- Mission-Driven Investments
- Program-Related Investments

McKnight's decision to launch its Impact Investing Program came after a year of intense debate and study involving the McKnight board, staff, and financial consultants. In the philanthropy world, taking a year to commit to something as intense as $200 million in impact investing is practically fast-tracking the decision. Which is why other foundations are intrigued by — and regularly contact Kate Wolford to ask about — the process of how McKnight studied the issue and then made the decision to go forward with a major commitment to impact investing.

One colleague wrote to Wolford, "I cited you as an example of a foundation that's figured out how to get going with an impact investing program rather than spending a few more years handwringing about whether to do it!"

Essentially, what Wolford's colleagues want to know is how did she and McKnight avoid falling victim to philanthropy's common malady: paralysis by analysis?

Wolford's answer often references what she calls McKnight's "secret sauce," which includes generous doses of these two ingredients:

- "Deep learning and exhaustive conversations among our board and staff."
- "Vigorous debate and an inherent commitment to thoughtful implementation."

Kate Wolford explains … that the process of creating McKnight's Impact Investing Program began in the best possible place: the board room.

We are a family foundation to the core, and McKnight's very active board still includes direct descendants of the founders. Fourth-generation family members are keen to align more endowment dollars with program goals, mobilizing our "other 95 percent" beyond grant dollars.

The germ of the idea for impact investing came from the younger members of the McKnight family, who brought the discussion to the board table. I think these younger members wanted to do more with their own investments, and they also saw the limitations of tapping only 5 percent of a foundation's endowment for mission — the 5 percent that federal tax laws require private foundations to distribute annually for charitable and administrative spending. Specifically, climate change was a big driver for family and other board members. They are excited about what we are doing, and now some individuals who in the past were more interested in our grantmaking than our investment portfolio are now equally interested in our investments.

The staff is onboard with impact investing, but it is super exciting to me that the idea came from the board and that the board continues to be the moral force behind what we are doing with our Impact Investing Program.

After conceiving the impact investing idea, McKnight began the process of bringing the Impact Investing Program to life.

Our board established a work group consisting of our board chair, two directors who serve on McKnight's Investment Committee, one director who does not serve on the Investment Committee, and several staffers representing key administrative, program, and finance functions. The board also hired consultant Imprint Capital to guide our process.

During a year of intensive exploration, we learned about opportunities and challenges across asset classes, about the current field of impact investing, and about field enhancements we might be able to help incentivize or create. We explored a variety of ways to structure and staff a program. And we sought out the informed wisdom of philanthropic colleagues. Former W.K. Kellogg Foundation President Sterling Speirn, for example, spoke with our full board about Kellogg's experience in mission-driven investing.

The work group's members updated our board at each quarterly meeting, and the board's annual retreat focused on impact investing. At that retreat, we made key decisions about the four strands of impact investing, about the amount to be invested in each, and about extending our relationship with Imprint Capital to help us implement the program.

Some basic assumptions kept McKnight grounded during the exploration of impact investing.

We started with some givens: that we would, of course, fulfill our fiduciary responsibility to the stewardship of our endowment and would never lose sight of our commitment that McKnight would exist in perpetuity.

We also appreciated that impact investing is relatively new, and there is a lot of hype in the field. So while we were hopeful and optimistic, we also maintained a healthy skepticism. We knew there was going to be a learning loop.
Most important, while we appreciated that our planning and debating were essential, what will matter most in the end is implementation. Our real test will be how

well we execute our approach, learning and adapting our practice while sharing our experience with the broader field.

McKnight's (and Wolford's) expectations for impact investing start with the four strands but also include collateral benefits.

McKnight has a strong commitment to accelerating the transition to a low-carbon economy, and we think impact investing will better align our endowment with sustainability. One key advantage of the four strands is that they give us flexibility to match the right tool to the task. Two of the four strands — Public Market and Private Market — will include funds with strong sustainability themes and have financial benchmarks similar to those in the rest of our portfolio. For the other two — Mission-Driven Investing and Program-Related Investing — we are seeking much tighter alignment with program goals, including ways to stimulate innovation or bring opportunities to scale in Minnesota.

Impact investing allows us to engage with and learn from groups and individuals we would not ordinarily work with and will provide us with a new toolbox that we can use in other programs to achieve our mission. We believe we can learn more about markets in ways that will make our grant making smarter. Although we are aware that the marketplace is not the solution to all problems — and in fact has created some of the problems that we are working to solve — we also want to leverage the power of the marketplace to create change.

In its most direct form, impact investing success can be defined as furthering a foundation's mission while earning an acceptable return on investment, however "acceptable" is defined (market rate, for example). McKnight introduced a third element of success.

Beyond the basics of program and financial success, our board expressed an equal commitment to learning about this emergent field. We want to learn in ways that inform our own practices, of course, but we also want to document and share what we have learned to be useful to others.

And certainly we have been the beneficiary of both the learning in this field and a generosity of spirit among colleagues who have offered advice about program design, structure, staffing, and measurement.

For any foundation executive or board member contemplating a move toward impact investing, Wolford offers five essential truths.

First, make sure your board is committed to exploring the idea and then, if the exploration is positive, make sure the board is committed to going forward with impact investing. At McKnight, we were so fortunate not only that the board was committed, but that the idea of mission investing originated within our board.

Second, ensure a deep commitment to cross-organizational collaboration. At McKnight, this included the support and work of the cross-functional group of board members (investment committee and non-investment committee members) and of staff (from finance and from program). As we launch, this cross-organizational buy-in is our greatest asset.

Third, to thine own self be true. My growing sense is that foundations will be most successful in impact investing if they do it in ways that are consistent with the foundation's "personality."

Fourth, do not create a new silo for impact investing. Integrate it with your current program so that you will be using everything you have already learned from grant making and your other work to inform how to conduct impact investing.

Fifth, given that this is emergent work, enter it with curiosity, humility, and adaptability.

ABOUT THE AUTHOR

Kate Wolford became president of The McKnight Foundation in December 2006. Prior to joining McKnight, Wolford spent 13 years as president of Lutheran World Relief (LWR), a global grant-making and policy advocacy organization. From 1991 to 2006, she worked at LWR, where she was named president after two years serving as program director for Latin America. Previously, she established Church World Service's Caribbean regional office for community-based development and worked with Servicio Social de Iglesias Dominicanas.

Wolford has a BA in history from Gettysburg College, an MA in public policy from the University of Chicago, and an MA from the Divinity School of the University of Chicago. Wolford serves on the board of directors of Greater MSP, The Johnson Foundation at Wingspread, and Living Cities.

• POINT OF VIEW •

ALIGNING DISCIPLINED TRADITIONAL INVESTING PRINCIPLES WITH CATALYTIC SOCIAL CHANGE

Audrey Choi, CEO, Morgan Stanley Institute for Sustainable Investing

The Morgan Stanley Institute for Sustainable Investing is dedicated to driving private sector capital to attractive investment opportunities that seek competitive financial returns as well as positive social and environmental outcomes. The Institute's mandate reflects Morgan Stanley's foundational commitment that capital markets can and should play a vital role in developing the innovative, scalable solutions that will help us meet some of the largest global challenges ahead.

Investing with Impact

The concept of adapting one's investment philosophy to align with institutional or individual values has been around for centuries. Since the earliest days of faith-based investing, certain mission-driven institutions recognized they did not want to use their investment dollars to support industries that ran counter to their values, leading to their avoiding investments in industries that they found objectionable, such as guns, alcohol, and tobacco. Over the centuries, socially responsible investing has evolved and matured in many ways, becoming more robust in the available strategies, metrics and investment products available.

Today, a number of powerful political, economic, and societal mega-trends are combining to produce a global investment landscape that increasingly demands more transparency, more accountability, and more integration of beliefs and values into all spheres of activity. Taken together, these factors create a particularly fertile moment in the development of sustainable investing. As this movement grows, we see a tremendous opportunity and responsibility for capital markets players like Morgan Stanley to provide more and better opportunities for investors to use as tools for both capital appreciation potential and advancing their cause. Foundations and endowments have been especially significant leaders in this trend, as they increasingly look to be catalysts of positive change through their strategic grant making as well as through the deployment of their investment dollars.

Big Data, Millennials, and 9 Billion+ People

We see several major factors driving this trend. The first is a massive, society-wide increase in transparency. Fueled by social media, big data, and global interconnectivity, the expectations and demands for transparency have never been greater. Customers, donors, advocates, investors, journalists, and citizens everywhere have unprecedented expectations — and capabilities — to have full visibility into the activities of companies, governments, and nonprofits. And increasingly, that demand for transparency is extending to those organizations' investments as well as their programmatic activities. Mission-driven organizations, in particular, are asking themselves and being asked by others how and whether their investments align with their missions. A number of leading foundations have decided to resolve what they see as a cognitive dissonance associated with providing funding for a certain cause, while at the same time holding significant investments that could contribute to the

very social, economic, or environmental ills that their grant-making programs are trying to address. Entirely appropriately, these organizations also need to ensure that they maintain the financial integrity of their endowment's performance so they can continue to fund their missions.

Secondly, the maturation of the Millennial generation is another powerful factor contributing to the rise of sustainable investing. Millennials have identified improvement of society as the primary purpose of business.[1] As such, they not only expect more accountability from their employers and communities, they want their core values and beliefs to be reflected across all aspects of their lives. As they inherit the estimated $41 trillion in wealth transfer from Baby Boomers in the coming decades, the Millennial generation will take a leading role in the synchronization of values and investment portfolios.[2]

Meanwhile, the vast global social and environmental challenges we face are clearly outstripping the capacity of grant dollars or public money alone to address them. Within just 35 years, the world's population is projected to increase by as much as 30 percent to more than nine billion people.[3] Global demand curves — for food, water, energy, infrastructure, housing, and education — are expected to start shifting upward in even more dramatic fashion with the increase of the population and the rise of the middle class in emerging economies. While views differ about how best to meet those growing needs, it is clear that government funding and philanthropic donations alone cannot keep pace with the scale and velocity of those demands. Investment capital can and must be part of the solution — identifying and funding the innovative business models that will provide breakthrough solutions to meet the needs of a growing population, while preserving the sustainability of the natural and built environment.

Disciplined Traditional Investing Principles for Meaningful Societal Impact

At the Morgan Stanley Institute for Sustainable Investing, we believe that sustainable investing — which we define as applying disciplined traditional investing principles in addition to rigorous analysis of environmental and social considerations — can absolutely have the potential for attractive financial returns as well as positive environmental and societal returns. In fact, we believe integrating these considerations into one's investment philosophy can potentially strengthen long-term value creation through better identification of risk factors and future demand trends and opportunities.

We see sustainable investing as an approach for investing that can be applied across all asset classes and throughout a broadly diversified investment portfolio. Sustainable investing is available through many types of investment vehicles — mutual funds, ETFs, and private equity, for example — and across nearly the entire risk spectrum. While an investor may choose to accept lower return potential in some cases, we believe that is a choice an investor may wish to make for their programmatic mission goals — but it

[1] *World Economic Forum. (2013). From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors.*
[2] *Havens, J.J., & Schervish, P.G. (2003). Why the $41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Question. Boston College Social Welfare Research Institute.*
[3] *United Nations. (2013). World Population Prospects: The 2012 Revision.*

is not a requirement for sustainable investing. Indeed, to cite just one of many possible examples, the MSCI KLD 400 Social Index, one of the first socially responsible investing indexes, which was launched in 1990,

has performed very much on par with the MSCI USA Index from April 1990 through June 2014. In the United States, professionally managed assets invested in socially oriented strategies have increased by a factor of five in the last 17 years, reaching $3.74 trillion — 11 percent of the total — under management.[1]

There are a wide range of choices and approaches, and we use a framework to help investors think about which aspects of sustainable investing are most important to them. At Morgan Stanley, we call this "Investing with Impact." Across this framework, investors can choose the combination of approaches and products that best suits their needs. These approaches include public equity and public debt products that focus on value alignment and screening, or tight integration of environmental, social, and governance considerations. They can also include public equity or public debt products focused on specific priority sectors, such as affordable housing or energy efficiency. And, for those investors for whom it is appropriate, it can also include private equity or private debt options, backing companies and funds that specifically target social and environmental impact as a core part of their business proposition.

Putting It Into Practice

When applying a sustainable investing lens, we believe that investors should take into account a handful of basic rules that in reality should be no different than approaching any sort of investment. Since foundations have been such significant players at the forefront of this field, below are a few suggestions that may be especially relevant for a foundation or endowment as they consider applying a sustainable investing framework to some or eventually all of their investments.

- Facilitate open discussion. An open discussion among key stakeholders is essential. That includes donors, participants, constituents, program staff, and, of course, the investment committee and institutional leadership. An institution should define its investment goals, priorities, and parameters so that there is a clear construct within which to work. Likewise, clearly defined expectations related to financial returns and impact metrics will help smooth the adoption of a sustainable investing approach.

- Determine impact and financial goals from the outset. Investment officers must have a clear and crisp understanding of what the investment strategy is trying to accomplish — from both a mission and financial value perspective.

- Bring the same level of due diligence and financial acumen to sustainable investing as traditional investing. Sustainable investing, when done correctly, should adhere to the same principles of disciplined investment decision making, with investment advisors applying the same level of critical analysis, judgment, and scrutiny to impact investments that they would to any investment.

- Be patient, as these decisions are important and can take time. The development of a sustainable strategy is not something that will happen overnight and should be gradual to ensure a methodical approach. The transition will likely begin with an analysis of current holdings and how those investments align (or not) with an organization's mission. We often see foundations then go through an evolutionary process of thoughtfully screening investments; integrating key social,

[1] *Forum for Sustainable and Responsible Investment. (2012). Report on Sustainable and Responsible Investing in the United States 2012.*

environmental, and governance factors into broad investment selection; and ultimately defining ways to think about investments that seek to proactively achieve investment and mission goals.

This Is the Moment

Now is a particularly auspicious time for institutions to consider integrating sustainable investing into their investment strategy and portfolio. Never before have as many investment products been available, across asset classes and thematic focus areas, to as many investors around the globe. Portfolio managers are incorporating environmental, social, and governance information into decision making because it can uncover hidden opportunities and risk. The increasing stable of investment options also opens the door for thoughtful and analytical portfolios that can represent broadly diversified and holistic approaches for foundations.

At Morgan Stanley, we believe that when sustainable investing is done right, with a sound investment thesis and rigorous investment process, this approach will help leverage significant pools of capital for positive environmental and/or social impact as well as competitive financial returns.

ABOUT THE AUTHOR

Audrey Choi is CEO of the Morgan Stanley Institute for Sustainable Investing and head of the Global Sustainable Finance Group. In these roles, she oversees the firm's efforts to promote economic opportunity, community development, and global sustainability through the capital markets. In a career spanning the public, private, and nonprofit sectors, Choi has become a thought leader on how finance can be harnessed to address public policy challenges. She served in senior policy positions in the Clinton administration, including as chief of staff of the Council of Economic Advisers and domestic policy advisor to the vice president. Previously, Choi was a foreign correspondent and bureau chief at the Wall Street Journal, covering German reunification and a wide range of industry beats. She serves on President Obama's Community Development Advisory Board and the boards of several national nonprofits focused on education, conservation, and impact investing.

EDUCATION

IN THIS SECTION:
- Key facts on early childhood and K-12 education and literacy
- Example investments
- Lessons learned

Ensuring that children and adults have access to quality and affordable early childhood, K-12, and postsecondary education is critical to breaking the cycle of poverty for future generations. However, during the economic downturn, state and local government budgets were strained. In 2011, the U.S. Department of Education had to cut spending by $1.2 billion. While foundations awarded nearly $5 billion to education-focused organizations and programs, they have not been enough to address all the gaps in making quality, affordable education available to all.

We are beginning to see foundations leverage their investment capital, in addition to grant funds, to test and scale effective solutions. Public-private partnerships are emerging in the form of pay for success models to achieve outcomes of governments and society value with potential cost savings, scale evidence-based programs, and leverage private capital. We are also seeing an increase in educational technology ventures that are working to use data, better provide necessary feedback and instruction to teachers, and reach more students. Eight respondents from our survey indicated having targeted investment activity in education, with early childhood education and K-12 the two most selected sub-impact areas.

EARLY CHILDHOOD EDUCATION

What We Know

Investments in high-quality early childhood education yield a 7 to 10 percent per year return on investment, based on increased school and career achievement and reduced social costs.

- As 90 percent of a child's brain growth occurs between birth and the age of three, early childhood is the most critical period of development for children.[xxi] However, low-income children are more likely to fall behind during this period, as they frequently do not have access to quality and affordable educational and developmental programs and resources.
- On average, children from low-income families enter kindergarten 12 to 14 months behind their peers in pre-reading and language skills.[xxii]
- Children who participate in preschool are likely to graduate from high school and 2.5 times more likely to continue on to higher education.[xxiii]
- Once they reach adulthood, children who were in high-quality preschool programs have lower arrest rates, higher income levels, and greater rates of high school completion compared to children who did not attend preschool.[xxiv]

Investments to Scale High Quality Early Childhood Education Programs

- **Acelero Learning: A For-Profit Company Rethinking Head Start** [See case study on page 40.] Acelero Learning is an example of how a market-based innovation can improve

Photo: Steve Liss


Photo: Steve Liss

efficiency and performance of early childhood programs. Founded in 2001, Acelero Learning serves 5,000 children by providing support to and operating high-performing Head Start programs in Nevada, New Jersey, Wisconsin, and Philadelphia. Acelero's emphasis on efficient operations, use of data, and high-performance culture attracted private investors and led to a $4 million capital raise.

- **United Way of Salt Lake City Pay for Success Model: Scaling an Evidence-Based Early Childhood Program** Up to 3,500 at-risk youth will have access to high quality early childhood education under the nation's first social impact bond directed toward early childhood education. The program, launched in August 2013, is overseen by the United Way of Salt Lake in two local school districts, Granite and Park City. It uses a pay-for-success model, in which private funders provide risk capital and recoup their money, with a premium, only if the program is successful and the districts realize savings from the avoided costs of special education programs. The model is based in part on the findings from a longitudinal study of the Utah High Quality Preschool Program that confirmed broader research that targeted early childhood education can help students who would otherwise need special education in primary school and beyond.

  The Goldman Sachs Urban Investment Group committed $4.6 million, in the form of an eight-year loan to the United Way. The J.B. & M.K. Pritzker Family Foundation provided an additional loan of $2.4 million to the United Way that reduces the risk to Goldman Sachs if the program proves to be ineffective. The Pritzker investment is part of the Early Childhood Innovation Accelerator, a $20 million initiative seeded by the foundation to increase the quality and availability of early childhood education for disadvantaged children.

  The preschool program was a ready model for such a pay-for-success arrangement because it can yield clear and quantifiable results within a relatively short timeframe. If the goals are met, fewer children will need special education, which will create savings for the state and allow the investors to be repaid. Additional savings are likely to accrue throughout students' school years and often into their adult lives.

K–12 EDUCATION

What We Know

In 2012, the nation achieved the highest overall high school graduation rate in its history. African-American and Hispanic students are seeing gains but continue to face challenges such as achievement gaps in math and reading compared to white students.[xxv] Additionally, only a limited number of public high school graduates are prepared for college.

- Earnings increase 1.5 times with an associate's degree (compared to a high school diploma). Earnings double with a bachelor's degree.[xxvi]
- In 2012, overall the U.S. high school graduation rate rose to 81 percent, the highest level in the nation's history.[xxvii]
- For Hispanic and African-American students across the country, graduation rates fall to 76 percent and 68 percent, respectively. However, graduation rates for both groups are on an upward trend, and the overall national gain is attributable to the gains among African-American and Hispanic students.[xxviii]

- Three-quarters of the fastest-growing occupations require education beyond a high school diploma, with science, technology, and engineering careers prominent on the list. Yet only 16 percent of American high school seniors are proficient in mathematics and interested in a science, technology, engineering, and math (STEM) career.[xxix]
- Three in four high school students graduate college without the appropriate preparedness in the four core subjects: English, reading, math, and science. One-third of students entering college need to take remedial courses.[xxx]

Investments in Education Technology

As the demand for innovation in education grows, education technology is a growing industry that can attract impact investors. In 2013, the Software & Information Industry Association estimated the value of the educational technology market at $7.97 billion.[xxxi]

NewSchools, a nonprofit venture philanthropy firm working to transform public education for low-income children, is an active investor in education technology and has cited a number of successful market-rate investments. Since 1998, NewSchools has invested $180 million in more than 70 nonprofit and for-profit educational organizations.

NewSchools provides much-needed early-stage capital to high-potential entrepreneurs developing technology solutions for the biggest challenges in K-12 education. According to NewSchools, they "invest in early stage tech tools, applications, content, and services that improve education opportunities for all children. The Seed Fund also acts as a catalyst, inspiring and enabling traditional and non-traditional tech investors to provide capital to the fast-growing ed tech market.

Investment Examples

- Carnegie Learning provides teachers and students with classroom tools and software for math education. Founded by scientists and veteran math teachers, Carnegie Learning applies comprehensive research and data collection to continuously improve curricula and provide engaging resources to help students connect with mathematical concepts.
- Amplify, an independent subsidiary of News Corporation, offers curricula, products, and customized services to help schools and teachers integrate technology into the classroom when teaching reading, math, and science.
- Engrade, recently acquired by McGraw-Hill after 10 years of growth, provides "freemium" services to teachers, parents, students, and school districts through web-based classroom management tools. The company has more than 3 million registered users and is used by elementary schools, high schools, and universities from all 50 states and more than 150 countries.
- Goalbook personalizes learning plans for students with online tools to help teachers align with Common Core standards while providing specialized instruction. The web-based platform was founded by Daniel Jhin Yoo, a former special education teacher, and Justin Su, a blended learning technologist.
- Brightbytes, through its Clarity platform, uses data to help schools map student learning outcomes, measure progress, and implement action plans. Thousands of schools across North America use the platform.

LITERACY

What We Know

Childhood literacy sets the stage for a life of productive citizenship and employment. Though literacy and reading proficiency

has improved for children in recent years, there is still much work to be done.

- In 2013, 66 percent of all fourth graders were not proficient in reading. This number reached 80 percent among lower-income fourth graders, compared to 49 percent for their peers from higher-income families.[xxxii]
- Family income and parent involvement are highly influential factors in a child's literacy.
- Reading to young children on a regular basis sets the stage for their reading proficiency later.[xxxiii]

Investment Example

- **Addressing Illiteracy with Creative Disruption in the Publishing Industry:** First Book, a nonprofit that has provided over 18 million books to schools and children's programs, seeks to improve access to books in an effort to increase literacy, cultural competency, and family empowerment. In the process, First Book has built an effective business model with sustainable revenue, increased its social impact, and attracted impact investors. (See essay by FirstBook President and CEO Kyle Zimmer and CFO Jane Robinson on page 44.)

POST-SECONDARY EDUCATION

What We Know

- Parents who complete a college degree double their incomes over their lifetimes. A parent's level of educational attainment is also a strong predictor of a child's economic mobility.
- The unemployment rate of high school dropouts older than 25 is nearly three times that of college graduates: 9.1 percent for those with no high school diploma versus 3.2 percent for college graduates.[xxxiv]
- The share of U.S. jobs requiring a college degree will increase to 63 percent in the next decade. This will require 22 million new employees with college degrees. At the current pace, the nation will fall at least 3 million college degrees short.[xxxv]

Photo: Steve Liss

Lessons Learned from Investments

- Since education is primarily funded through governments – national, state, and local – there is a need to develop a business model that fits within the existing investment climate, while delivering increased efficiency. In the case of Acelero Learning and Revolution Foods, their product/service delivery was better than what existed, was offered at a lower cost than currently subsidized, and generated improved outcomes for young people, particularly those most at risk.
- First Book demonstrates that nonprofits can be sustainable, have positive social and financial impacts, and, more importantly, change markets through dollars and not just advocacy. The First Book Marketplace aggregates users of all types to create the demand from parents, children, and caregivers to change prices and content in the publishing world. By providing access for free or reduced print prices, First Book has been able to disrupt production practices by demonstrating demand for more bilingual books and creating scale that has reduced prices for all consumers.
- Education technology has successfully penetrated two key areas of educational success: access and

quality. Through the use of technology and multiple distributive networks, ed tech companies have increased access to education in the classroom and beyond. This has allowed parents and students to foster ongoing learning opportunities, tailored to the needs of the individual in terms of time and space. Moreover, ed tech has enhanced the quality of education through the engagement of experts who are able to bring laser focus to the issues of special needs students, bilingual education, and the like, providing much needed content beyond what can and is deployed in a finite class time.

Opportunities for Impact Investing in Education

As government maintains the responsibility to provide education, opportunities related to education access, completion of school, quality training of staff and students, and access to employment beyond graduation remain limited, especially for low-income communities. Too often the challenges to the education system are attributed to politics and financing. However, education impact investing could mobilize new funding, enable private sector engagement in both public and private education service delivery, and introduce and scale approaches or tools to improve efficiency of service delivery, promote innovation in teaching and learning methods, and monitor outcomes and systemic effectiveness.

Impact investing has advanced in many areas but remains nascent in the education sector. Most deals remain small, and investments in schools currently dominate deal making, with more innovative technology and management models beginning to emerge. Private financiers of education have tended to be of two main types: donors focused on reaching the lowest-income populations without expectation of any financial return and finance-first investors who target middle- and upper-class populations. However, there are emerging deals, social entrepreneurs, and impact investors to fill the middle.

The examples provided – from First Book to Acelero Learning to the Utah pay for success model – demonstrate public and private sectors converging to move the needle on education performance and outcomes.

These examples point to three key opportunities in the field:

- **Investing beyond school infrastructure to broader educational outcomes.** The W.K. Kellogg Foundation investment in Acelero Learning was not based on creating new child care centers but on improving systems that lead to better service delivery, lower costs, and stronger educational performance outcomes. Investing in broader ecosystems disperses investor risk and increases the availability and quality of ancillary services that are often critical to the long-term success of students, particularly those from low-income families.

- **Focus on quality and efficiency.** The very nature of pay for success focuses on scaling interventions that are proven to work. The investments in Utah should demonstrate that existing interventions, when scaled, will generate greater educational outcomes for K-6 students, while saving money and reducing opportunity costs for the state and allowing for increased investments in related and ancillary services.

- **Leverage intermediaries to deploy large amounts of capital effectively.** In the case of New Profit supporting ed tech enterprises, and the Social Innovation Fund pay for success model of investing in successful intermediaries like Institute for Child Success or the Center for Employment Opportunities, the use of skilled intermediaries reduces transaction costs and increases the likelihood of success due to the presence of sector experts. Intermediaries reduce sector fragmentation and friction by bringing proven models to investors and help mitigate risk through diverse products across the educational spectrum.

Photo: Steve Liss

CASE STUDY
ACELERO LEARNING: FOR-PROFIT HEAD START PROGRAM PAYS OFF FOR CHILDREN, BUT INVESTORS MUST WAIT

By David Bank (with Jenny Griffin), ImpactAlpha.com

The 100-degree heat in the Nevada desert limits outside play to 15 minutes for the energetic three-, four-, and five-year-olds. No matter. It's cool inside the Acelero Learning Henderson Child Care Center near Las Vegas and the preschoolers are eager to read.

Emily turns the pages of an oversize book about farm life while her "reading buddy," Francisco, explains that chicken babies are called chicks and that horses wear metal shoes. Ruben "reads" to Isaac, who counts 10 crayons, eight spider legs and three billy goats.

The daily routine looks relaxed, but there's nothing casual about an Acelero Learning Head Start program. Every element of Acelero Learning's program is intended to help close the achievement gap for low-income kids. As soon as kids are enrolled, parents sign a contract, promising to read to their children at least 20 minutes each night, engage them in dialogue and establish consistent family routines. Preliteracy exercises like the reading buddies get children ready to read even before kindergarten.

Acelero Learning's teachers and staff track more than 30 indicators three times a year, assessing reading and math readiness; attendance; the effectiveness of coaching for teachers, parents, and family advocates; families areas of strengths and needs for support; the unaddressed medical needs of students. Every aspect of the program is measured, tracked and analyzed in Shine Insight, Acelero Learning's proprietary electronic management system.

"We use the data in everything we do, every day, every hour, to make better decisions for children and families" says Rory Sipp, executive director of Acelero Learning's 11 Clark County Head Start centers, including the one in Henderson.

The achievement gap yawns particularly wide in Nevada, which ranks near the bottom of the 50 states in education outcomes. The high school graduation rate is under 63 percent, ranking 48th; per-pupil spending ranks 49th. Nevada comes in dead last for enrollment in preschool for three- and four-year-olds. As Sipp says, "Our gains are higher because the students are starting out lower."

Outside evaluations suggest that Acelero Learning is indeed effective in delivering improvements in student achievement. On a number of standardized tests, children's year-to-year gains in Acelero Learning's programs are more than 50 percent higher than the average for children in Head Start programs overall, according to a study by the National Institute for Early Education Research (NIEER) at Rutgers University. On the standardized Peabody Picture Vocabulary Test, for example, kids in Acelero Learning programs for 20 months gained 16.1 points versus 6.4 points for kids in Head Start programs as a whole.

Acelero Learning stands out as well as the rare for-profit, national operator in a Head Start industry dominated by local nonprofits. That has made it a test case for the proposition that private investors can play a positive role in improving educational outcomes for disadvantaged kids — and perhaps make some money as well.

Successful models should be in high demand as the notion that effective preschool is perhaps the best way to help low-income students succeed has gained bipartisan support. President Obama and New York City Mayor Bill de Blasio have called for universal pre-K education and Republican governors such as Rick Snyder of Michigan and Robert Bentley of Alabama are pushing for big increases in preschool spending.

"We are social-returns billionaires over here," says Aaron Lieberman, Acelero Learning's co-founder and chief executive. "But the financial returns have taken a lot longer to grow to significant scale. We always just assumed if we make a huge impact on children's learning, financial success would follow. While that is happening now, it has taken far longer than we thought it would."

DISRUPTIVE START-UP

Acelero Learning, headquartered in Harlem, had some of the marks of a hot startup. The company raised a total of $4 million in private capital on the premise that Acelero Learning's state-of-the-art approach would indeed disrupt Head Start, in a good way.

The notion was that Acelero Learning would reap first-mover advantages with its proven, evidence-based approach to land Head Start contracts across the country. The cash flow that scalable, replicable service models often can provide would attract private capital to transform the landscape of early childhood education.

The federally funded, $8.6 billion Head Start program certainly seems ripe for disruption. Via contractors, Head Start provides preschool for more than 940,000 children. Driven by public funding rather than consumer demand, the performance of local Head Start programs ranges from excellent to poor.

From a single program in Monmouth/Middlesex County, New Jersey, in 2005, Acelero Learning this year will serve more than 5,000 children in New Jersey and around Philadelphia, Las Vegas, and Milwaukee. Acelero Learning's annual revenues have grown to nearly $50 million and the company has turned the corner to profitability.

Acelero Learning has shown that evidence-based curriculum and effective management systems can produce dramatic educational gains at compelling costs and with increased enrollment, higher teacher salaries and additional hours of programming for children and families. As Head Start has moved to put more low-performing local contracts out for competition, Acelero Learning has often been one of the few new bidders able to quickly take over and turn around troubled programs.

PATIENT CAPITAL

Venture capital-driven startups that are able to enter new markets quickly, replicate results, grow revenues, and even generate profits usually can expect to get acquired by a bigger company or tap the capital markets with an initial public offering. Those kinds of liquidity events provide exits for investors to recoup their capital and can sometimes mean a payday for founders and employees as well.

But nearly 10 years after it received its first outside investment, Acelero Learning has just begun to return capital to its private investors, posing a challenge to the traditional venture-capital model.

Now, Acelero Learning is trying to model a different kind of "impact investment," as a mission-driven enterprise with stable, if slow, revenue growth. With a recent recapitalization of its early investors, the company is trying to return capital to its investors without the kind of dramatic exits venture capitalists have come to expect.

Acelero Learning's first outside investor was Boston Community Capital, which provided a loan in 2004. That was rolled the next year into preferred shares in a Series A financing, led by Ironwood Equity Fund, also in Boston. Other investors included New Jersey Community Capital and the New Schools Venture Fund. The investments helped Acelero Learning win the Head Start contract in Las Vegas, effectively doubling its revenues.

The valuation of early investments in the company were set in part on the expectation of federal policy changes. Federal regulations allowed for-profit companies such as Acelero Learning to bid for, but not make profits on, Head Start contracts. Another regulation restricted Head Start providers from rolling over surpluses from one year to the next. The idea was that such companies could earn profits from wraparound, ancillary services, such as after-hours care, paid for by other federal and state programs.

The limitations didn't deter early investors. "I liked to say, 'If a double-bottom line fund can't invest in a company in a field where you can't make a profit, who will?'" says Chris Gabrieli, a partner in Ironwood Equity. "They were attacking a big problem, and the importance of the outcome, and the possibility they could build a business that could pay for itself, was a compelling proposition."

In the end, the company lost that bet when legislative changes that would have allowed companies to earn at least modest profits from its savings on the administrative portion of Head Start contracts stalled in a congressional conference committee. That outcome may have been a blessing in disguise: It helped insulate Acelero Learning from criticism that some for-profit education companies sacrifice student outcomes for the bottom line.

STRATEGIC PIVOT

In 2009, the Kellogg Foundation invested $500,000 as part of a $1 million Series B round of investment. It was the first investment from the foundation's $100 million mission-driven investment (MDI) initiative. "Here they are, working with $9,000 per kid, getting results associated with other programs at $19,000," Tony Berkley, then director of the Kellogg Foundation's initiative, recalls thinking when he reviewed the company.

But the regulatory restrictions meant that Acelero Learning's growth was going to be slower than expected. Acelero Learning moved away from its plan to rapidly grow its own Head Start programs. Head Start programs are allowed to use their federal dollars to pay outside providers for needed

services using normal contracting procedures. So, Acelero Learning pivoted to a new strategy, packaging its proven coaching, curriculum and assessment tools into a separate unit to provide technology, tools, and technical assistance to other Head Start operators.

Now called Shine Early Learning, the unit helps dozens of partners apply for hundreds of millions of Head Start funds each year. Acelero Learning still tries to add one or more Head Start contracts each year, to test its methods and bolster credibility, but Shine is the focus of its expansion plans. More than 25,000 kids are in Head Start programs that get direct technical assistance from Acelero through Shine Assist. Another 75,000 or more are in programs that use Shine's tools and curriculum. Shine Early Learning now makes a greater contribution to Acelero Learning's profits than its direct Head Start program operations.

"We think we will eventually significantly and substantially reach a million kids each year, if not more," Lieberman says. "Compared with other pre-k efforts that require an ongoing philanthropic subsidy, we are already having a much greater impact at a fraction of the cost. And our approach is now completely self-sustaining."

Still, Acelero Learning has not yet earned back the $4 million in private investment that the company spent to build its systems and tools. Some of Acelero Learning's investors became impatient to get their money back as their 10-year funds approached maturity, and their own investors demanded liquidity.

In the spring of 2014, Acelero Learning recapitalized itself with senior debt to repay early investors, with interest, over the next five years. Ironwood extended the loan, rolling in and expanding its earlier stake in return for immediate interest payments. Boston Community Capital sold the shares acquired from its initial investment for about two times its original investment. Overall, the returns will be in the low double-digits for the early investors.

The Kellogg Foundation agreed to roll its investment forward. Foundation executives reasoned the company was stable and profitable with stable cash flow from five-year government contracts. The foundation participated in the negotiations with other investors to lower the interest rate to try to ensure the company isn't overburdened by debt.

"They're meeting the social impact goals even though they're not quite scaling at the rate that we want," says John Duong, program and portfolio officer for the Kellogg Foundation's mission-driven investments.

Paying back early investors from revenues over the next five years will reduce Acelero Learning's flexibility in making new investments. But the new financing structure appears to let Acelero Learning build its Shine technology and technical assistance business without pressure to sell out to a buyer that may not share its mission focus. Investors gain some liquidity and immediate yield.

Gabrieli acknowledges that a purely commercial investor might not find a "2X" return of capital compelling, even though that's respectable for a relatively low-risk service business with stable government revenues.

"This is a patient capital space," he says. "If you're having a massive impact, and you can get paid back and make double-digit returns for something that's for the good of mankind — that's a pretty good result."

• POINT OF VIEW •

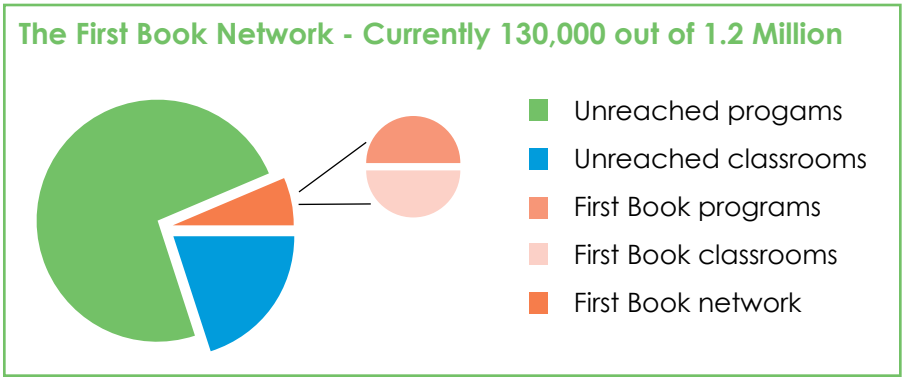
FIRST BOOK: CREATING DISRUPTIVE INNOVATION WITH CROSS-SECTOR COLLABORATIONS

Kyle Zimmer, President and CEO, and
Jane Robinson, CFO, First Book

First Book is a nonprofit social enterprise that distributes new books and educational resources to children in need across the US and Canada. Since 1992, First Book has distributed more than 118 million new books with a retail value of nearly $1 billion. They currently serve more than 130,000 programs and schools in the First Book Network, the largest and fastest growing network serving children at the base of the economic pyramid in North America. First Book's innovative model has been highlighted on stage at the Clinton Global Initiative and has been featured at World Economic Forum events in Davos and Beijing. Their impact-focused philosophy of social change has also been featured in case studies and lectures at a number of top MBA programs including Wharton, Yale, Columbia, and Oxford.

Leveling the Playing Field for America's Future

Educational equity—regardless of families' income level—is critical. However, for the 32.7 million U.S. children growing up in low-income families, there is a massive gap in access to books and educational materials. Without these tools for learning, the achievement gap for kids in need will continue to grow.



The simple reality is: children need books to learn to read. A meta-analysis of over 11,000 studies on the impact of access to reading materials confirmed that correlation.[1] A rich supply of books improves reading performance regardless of a child's economic status or even the parents' literacy levels.[2] But the disparity in reading scores between low-income children and children of means remains a stubborn gulf. Over 84 percent of low-income children are 'below proficient' in reading by fourth grade.[3]

1 Learning Point Associates. Children's Access to Print Material and Education-Related Outcomes. August 2010. http://rif.org/documents/us/RIFandLearningPointMeta-FullReport.pdf
2 M.D.R. Evans, Jonathan Kelley, Joanna Sikora, Donald J. Treiman. Family scholarly culture and educational success: Books and schooling in 27 nations. Research in Social Stratification and Mobility, Volume 28, Issue 2, June 2010, pages 171-197. http://www.sciencedirect.com/science/article/pii/S0276562410000090
3 Annie E. Casey KIDS Count Data Center. http://www.datacenter.kidscount.org

This disparity has well-documented, widespread impact: on the workforce, the economy, and the social, cultural and physical health of this country and beyond. In fact, the U.S. will face a shortage of educated workers as soon as 2020 and a surplus of 6 million unemployed individuals without a high school diploma.[4]

There is a market reality behind this: the traditional publishing industry business model does not work for most people because prices are high and content is limited. Without very affordable, relevant books, tens of millions of children from low-income families have lost access to the tools for reading and learning. First Book, a nonprofit social enterprise, addresses this critical issue.

Disruptive Innovation: First Book Marketplace

First Book has created a positive, collaborative disruption of the publishing industry, bringing a new market and guaranteed sales to an industry that is, by virtue of its design, currently reaching a small percentage of the consumer base. The First Book Marketplace (FBMP) is our revenue-generating model that gives voice to a previously underserved socioeconomic group.

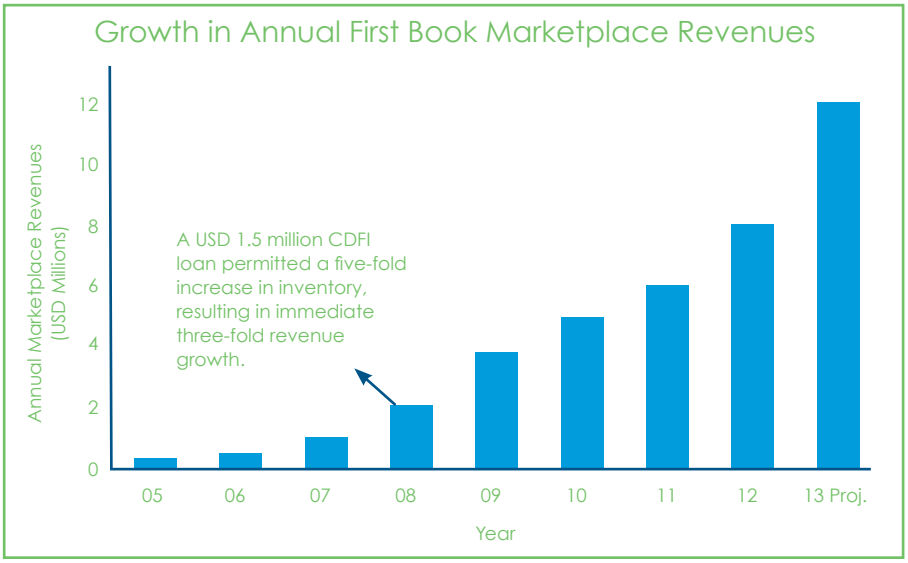
Benefits for each sector are built into the FBMP business model and match each sector's goals: private sector companies make a profit; the social and public sector organizations serving children in need lower their costs and improve the quality of their educational tools; and First Book gains a mission margin to fuel a sustainable model to reach more children in need with a rich array of resources.

Inherent Challenges of the Publishing Industry

The publishing industry has been stymied. First, its design requires that retail prices have to incorporate the cost of returns and other unique business demands. That means books are expensive ($18 for an average child's board book), thereby limiting the market to the top 10-15 percent of the socioeconomic strata. Second, while demand for lower cost, more diverse content exists, creating content for an uncertain market has proved too risky.

Two barriers - price and relevance - have to be solved in order to effectively supply books and educational resources to the 45 percent of US children at the bottom of the economic pyramid.

This is a large, viable market, but prices have to be brought down. First Book's surveys during the business planning for the FBMP revealed that two-thirds of the estimated 1.3 million programs and classrooms serving low-income populations have at least some money in their budgets for books. However, at $18 per book, an average monthly budget of $100 for 20 children would only buy five books. Teachers reported buying things like construction paper, instead of books, so they can provide something to all their students.



4 *http://www.aecf.org*

The First Book Marketplace is an entrepreneurial model that generates new revenue for publishers by aggregating a previously untapped consumer segment. This is one of the most successful strategies I've seen to significantly grow the children's publishing market in almost 20 years.

- Susan Katz, President, HarperCollins Children's Books

Looking at the content landscape, we have colliding worlds. A review of books by the Cooperative Children's Book Center revealed that 93 percent of kids' books had white protagonists, with 1-3.3 percent each for Latino, African American and other demographics. By contrast, the population of children from low-income families breaks down as 30 percent Latino, 22 percent African American, and 6 percent other nonwhite demographics. Over 58 percent of children in need find it tough to find themselves in today's books, when they can get their hands on them.

Cross-Sector Collaborations: Reaching an Untapped Market to Cultivate Engaged Readers

First Book has aggregated the largest and fastest growing network of educators serving low income children in North America, now numbering over 130,000. Registration is free and we audit the network to assure groups are eligible, serving at least 70 percent low-income children. First Book buys new, high quality books in large volume on a nonreturnable basis from the publishers, adds a margin to cover pass-through hard costs and internal operations, and offers them only to our network. Books average about 75 percent below retail -- a paperback averages $2.65 and the prices include shipping and handling. The FBMP has over 5,000 titles and a growing list of other resources such as puzzles, tip sheets, supplies and soon, digital resources. Since launch in 2008, the FBMP has averaged 35 percent annual revenue growth, with gross revenue in 2013 reaching $11.7MM. After cost of goods and logistics, a profit of $2.2MM is retained for FBMP operating expenses.

First Book now buys millions of dollars of inventory from publishers who net a slimmer but incremental profit while nourishing future readers in a high potential market. During the early days of the FBMP, publishers were hesitant, but trusted our registration gateway for educators serving at least 70 percent low-income children as protection against cannibalizing their retail sales. Today, First Book works with nearly every major publishing house.

Private sector strategies drive the efficiencies we developed for positive business outcomes, including making high volume purchases to lower cost; setting sales goals that lowered cost because they contributed to publishers' business goals; and charging the new consumer something closer to what he can pay. First Book has invested in a predictive analytics tool to reveal more about the market to help us more fully address their needs.

We also use best practices from the social sector to keep the model focused on our mission: limiting the customer base to the target population; lowering margins to what the model allows rather than raising them to what the market will bear; and recruiting added purchasing power from third party donors so eligible programs with absolutely no funds can still take advantage of the innovation.

Early on, First Book saw the need to give voice to educators. We established a consumer feedback mechanism enabling educators to request resources that align with their curriculum, translating into more relevant content. For example, educators indicated that they needed a bilingual Spanish/English version of the iconic *The Very*

Hungry Caterpillar. Only single language editions existed until First Book negotiated for a bilingual version. Over 135,000 copies have sold through the FBMP and the publisher has since launched the bilingual edition to the retail market.

In 2013, seeing the lopsided demographic breakdown of children's book content described above, First Book launched the Stories for All Project, issuing an RFP for highly discounted diverse titles. Over 26 publishers created powerful offers, so powerful that First Book invested $1MM in new diverse content. The titles sold rapidly and many have been restocked. In 2014, we issued a new RFP, this time for unpublished diverse authors and content.

These examples demonstrate how First Book has harnessed the power of the market at the base of the economic pyramid and empowered a new market force and consumer voice.

From Proof of Concept to Scale: Where is the Capital?

With an award-winning business plan, willing partners in the private sector, and a proven market, capital was and is the challenge.

After a successful pilot, our primary need was to stock and maintain inventory and set up a robust online site. Despite a tough road to financing in 2008, we were able to secure the capital and grow rapidly. First Book took out a loan of $1.5MM at market rates and a three-year term from a consortium of CDFIs: Partners for the Common Good, Nonprofit Finance Fund, and Calvert Foundation. This successfully boosted sales by 180 percent the first year after the pilot. By the third year, after the economic downturn, we asked for refinancing, which the consortium could not do. By repaying the loan eight months early, we saved $80,000 in interest.

Now a few years later, with 35 percent average annual revenue growth and a ballooning market, we are eager to scale the FBMP model. Our projections indicate that upgrading technology to improve user experience, broadening inventory to needed categories, and speeding outreach efforts will catapult growth yet again, if we can find the patient capital. That capital continues to be more of an obstacle than it should. Commercial banks offer loans and lines of credit, but they are not patient enough for the task of aggregating and engaging such a fragmented market. Foundations with program-related investments sometimes limit their PRIs to their field of interest rather than to systems within the social sector, and often only to current grantees. CDFI funds are limited. Capital campaigns take years to build momentum.

There is great opportunity in the sector for patient capital investment in systemic solutions to increase social impact. Given the example of the success we have had over the last 6-1/2 years with the FBMP, we would urge a flow of capital be made available to proven revenue-generating models sector-wide.

Looking Forward and Beyond

First Book created a collaborative disruption to a private sector industry because it believes that a vibrant publishing industry is critical in a democratic society. It is an industry that has advanced cultural and intellectual heritage since Gutenberg. Built to last with solid business principles, the First Book Marketplace offers a new, vibrant market for the private sector, combining social impact and profitable results.

Like First Book, there are streamlined innovations out there that can mobilize cross-sector collaboration, set and meet social and financial benchmarks, and tap new markets for future growth. What is missing for these innovations to become powerful is a stronger flow of social impact funding. They need patient capital – we know there is real return and impact to be made.

About the Authors

Kyle Zimmer is co-founder, president and CEO of First Book. Kyle has created groundbreaking, systemic approaches to ensure that those serving children from low-income families have a steady supply of brand-new, high-quality resources they so desperately need. Under Kyle's leadership, First Book has launched innovative models and cross-sector partnerships resulting in more than 118 million new books and educational resources to the largest and fastest growing network of schools and programs serving children from low-income families across the United States and Canada.

Jane Robinson is the chief financial officer for First Book. After two decades in the private sector, Jane has provided strategic guidance for First Book and its subsidiaries during a period of unparalleled growth. She serves on the executive management team and helps create the business plans and strategic development of First Book's revenue-generating enterprises.

• POINT OF VIEW •

INVESTING TO SCALE EARLY-STAGE SOCIAL ENTERPRISES

Jim Bildner, Managing Partner, Draper Richards Kaplan Foundation

Founded in 2002, Draper Richards Kaplan (DRK) Foundation is one of the country's leading venture philanthropy firms. Since its inception, DRK has funded 64 early-stage, high-impact, nonprofit social enterprises tackling some of society's most complex problems. Early DRK investments include Kiva, Room to Read, VisionSpring, One Acre Fund, and Grassroots Soccer. In its investment thesis, DRK heavily borrows a point of view from it's venture capital legacy, which makes it rare among funders in this space. DRK provides early funding and rigorous support to exceptional social entrepreneurs to help them scale their organizations and to achieve the greatest impact.

At Draper Richards Kaplan Foundation, we believe in the power of eight simple words: You can make the world a better place.

We do this by making impact investments in a select group of leaders who have the capacity to build incredible social enterprise organizations and whose vision for these organizations, at scale, can make a difference in the world. Having funded 64 organizations to date, we have also learned a powerful lesson — that just giving money and checking in from time to time is not enough. We have found that the real difference is in partnering with passionate leaders and in giving them rigorous and unrelenting ongoing support to pursue their dreams to change the world and to help them dream even bigger.

We are not shy about saying that we have borrowed this perspective from our venture capital legacy, allowing us to create a unique model, proven over a decade, for working with world-class social entrepreneurs. We find, fund, and support leaders with exceptional promise and impactful ideas that have the potential to scale.

We find these exceptional entrepreneurs and investment opportunities through exhaustive due diligence on hundreds of potential portfolio opportunities, working in close contact with partners, networks, and institutions. And because we are focused first on the problem these organizations are trying to solve, as opposed to whether they're for-profit, nonprofit, or a hybrid, we do not rely on just talking with one sector — we aggressively cross-reference our ideas with the public, private, and nonprofit sectors and only then narrow our focus to a select group of exceptional leaders and organizations we believe can actually make a difference in changing the status quo.

We seek out entrepreneurs who exhibit characteristics of extraordinary leadership: vision, intelligence, empathy, ambition, and follow-through. Draper Richards Kaplan Foundation entrepreneurs have proven track records that demonstrate a full spectrum of competencies. While we unapologetically deploy a rigorous, venture capital-style due diligence process to discover this, our entrepreneurs and their

advisors routinely say that our questions "pushed [their] own thinking," helping them further evolve and refine their model.

We fund these organizations with three-year unrestricted funding — which we believe is incredibly important. Early on, we recognized two things that drive our funding model: 1) unrestricted capital is the most precious capital that our portfolio companies need to build out their organizations, and 2) multi-year funding, as opposed to a one-time grant, is critical in helping these great organizations achieve scale.

We support our entrepreneurs for three years with ongoing support through active participation. We take a board seat for three years, often serving as the first truly "outside" board member. We work day and night with our grantees, opening our networks and contacts to each of these select organizations, facilitating meetings, convening critical resources, and working side by side with each leader to help them reach their full potential and build their organizations to scale.

Over 12 years we have developed pattern recognition and deep knowledge about the common challenges that start-ups face, and we partner with our entrepreneurs to help deal with these early and quickly.

Since we started in 2002, we have invested in more than 60 social entrepreneurs operating both domestically and internationally. Since our first dollar was invested in our portfolio companies, our dollars have been leveraged more than 50 times, raising over three-quarters of a billion dollars for our portfolio companies, which are advancing social good across the globe.

To our delight, our portfolio grantees have averaged more than 50 percent year-over-year growth in revenue over their three-year grant cycle, and many have achieved multiples of their forecasted metrics.

Our investments can speak for themselves:

- **Kiva** has enabled more than $550 million in small loans to low-income businesses.
- **One Acre Fund** reached more than 130,000 farm families in 2013 alone and increased their farm income by 50 to 100 percent.
- **Room to Read** has helped a staggering 8.8 million children become more literate.
- **VisionSpring** has delivered over 2.3 million pairs of eyeglasses to the developing world.
- **SIRUM** has redistributed over $2 million worth of medicine through its flagship California program, with plans to expand nationally.
- **EducationSuperHighway** urged the Federal Communications Commission (FCC) to spend more on broadband for schools, causing the FCC to double its investment to over $2 billion a year.
- **Blue Engine** was recognized by President Obama in the State of the Union for its "innovative tutoring program" for improving academic outcomes for low-income students.
- **Taproot** has delivered over $130 million worth of pro-bono professional services to the community.

And whereas our early investments are impressive, our current portfolio reflects similar innovation and promise, helping to provide critical access to health care, food security, social justice, water and sanitation, transparency and accountability, and shelter.

The world we live in has no shortage of problems and no easy answers. To move the needle, impact investors focused on addressing complex social problems must leverage all the tools they have. We have learned that capital is only one of them. Of more value, over time, is treating each social enterprise investment as if it is a for-profit entity, serving on the board and knowing that any one of them could impact the lives of millions. Now that's worth fighting for.

About the Author

Jim Bildner is the managing partner at the Draper Richards Kaplan (DRK) Foundation, where he focuses on investing in nonprofits and social enterprises that are working to solve complex issues, including systemic poverty, environmental and conservation issues, food insecurity, access to health care, homelessness, community development, and second-generation strategies to address these issues. Bildner comes to DRK from Harvard, where he is an adjunct lecturer in public policy at the Harvard Kennedy School and a senior research fellow at the Hauser Institute for Civil Society and the Center for Public Leadership at Harvard University. At the Kennedy School, his research interests include understanding the role of private capital in solving public problems, extending the capacity of foundations to solve complex societal issues, and the sustainability of public and private systems when governments disinvest in these systems. His course load includes co-teaching a course on public problem solving and philanthropy.

• POINT OF VIEW •

TALENT FOR IMPACT: LESSONS LEARNED FROM IMPACT INVESTING

Monisha Kapila, Founder and CEO, ProInspire

ProInspire was founded in 2009 to address the gap between interest from young professionals in impact careers and opportunities to work for social sector organizations. Through the ProInspire Fellowship program, outstanding business professionals with two to five years of private sector experience in consulting, finance, marketing, and operations are selected to work with our leading nonprofit and social enterprise partners. We have since placed over 100 Fellows with 45 partners, and we continue to see high demand for impact careers — especially in the impact investing field. Our experiences reflect what the Aspen survey revealed: Impact investing organizations and mission-driven enterprises benefit from teams that blend business acumen with deep experience and expertise in social impact areas.

Impact investing in particular provides a fascinating case study in how a nascent industry can create an attractive talent marketplace. It is not just a matter of attracting the talent, however; the sector must create additional opportunities and address the talent development needs of its professionals so that it can best leverage its human capital resources to maximize both retention and results. This essay will highlight how impact investing has successfully attracted talented business professionals from the private sector and identify opportunities for impact investing to better support talent in the field.

Why the Interest?

The impact investing field has witnessed a surge in interest from individuals with diverse professional backgrounds who want to use their skills for social impact. Since impact investing sits at the nexus of financial and social returns, it is an ideal industry for switchers with business backgrounds. Several factors have fueled this movement:

- **Cross-generational desire for meaningful careers.** Professionals want their work to have greater meaning, and impact is a key dimension of this. Net Impact, a membership organization for people committed to making a difference through their careers, has grown from a small group of MBAs in 1992 to 9,000 members in 95 chapters in 2004 to 57,000 members in 320 chapters in 2014. While the rising demand is most often attributed to Millennials, the movement is visible across all working generations; to wit, a growing number of Boomers are choosing "encore" careers focused on impact. Pat Wilson, a former finance professional and now a ProInspire Fellow at Accion's Frontier Investments Group embodies the overall trend toward careers with meaning: "I realized having a substantive mission behind what I do is central to my motivation. Impact investing is half finance, half entrepreneur work, and it fulfills my social mantra. It is hard to find a marriage like that."

- **Focus on social enterprise in MBA programs.** An increasing number of graduate business schools offer social enterprise programs, and impact investing is at the forefront. Students and faculty alike recognize that big business will need to focus on mass market customers in emerging markets in order to sustain growth rates; investing in companies that reach new markets is not just a nice-to-have, it is a business imperative. In fact, Harvard professors have published more than 500 books and case studies on social enterprise over the past 11 years.
- **Media awareness.** Increased attention on high-profile impact investors, such as Acumen and Accion International, has fueled professionals' interest in working in impact investing. Many people credit books like C.K. Prahalad's *The Fortune at the Bottom of the Pyramid*, Muhammed Yunus's *Banker to the Poor*, and Jacqueline Novogratz's *The Blue Sweater* as game-changers in how they view their careers. Andria Seneviratne, ProInspire Fellow at City First Enterprises, who previously worked at Deloitte & Touche, was introduced to impact investing through Acumen. "The way Acumen uses markets to tackle poverty captivated my attention. I became passionate about finding an avenue to do this."

Benefits of Multidisciplinary Teams

It is not just individuals who benefit from the alignment of personal passions with professional pursuits. Impact investors, in turn, have found that professionals with business experience complement the skills of those with social sector expertise. When it comes to making investment decisions, multidisciplinary teams with business and field knowledge are best positioned to evaluate an investee's business model, understand the target market, and assess potential for social impact.

These multidisciplinary teams also play an important role in ensuring the success of impact investments, as investors turn to them to provide business advice to their portfolio companies. Rishabh Khosla, ProInspire Fellow at Accion Venture Lab, who previously worked at Bain & Company, spends 30 to 40 percent of his time engaged in mini-consulting projects with Venture Lab's portfolio companies. These projects include customer segmentation for a big-data financial services company, product development for a low-cost doctor call center in India, and a referral program for an online savings and credit website.

Capitalizing on Interest in Impact Investing

Despite these benefits, a huge gap remains between the supply of talent and opportunities within the sector. As a fairly immature industry, the true opportunities in impact investing do not match the perception created by media attention. Companies that have been funded by, or seek to get funding from, impact investors represent a key opportunity for talent interested in the space. A 2012 survey by Village Capital illustrates the need for stronger support of social enterprises and their portfolio companies: 400 Village Capital alumni, all founders of companies with core impact objectives, cited talent acquisition and retention as their number one barrier to growth — ahead of fundraising, which is historically the top entrepreneurial concern.

Directing talent to social enterprises is challenging, however, given the dispersed nature of information across so many geographies and industries. One approach is Acumen's Global Fellows program. Established in 2006, the program attracts talent to make an immediate impact at their portfolio companies and develops Fellows to be sector leaders for the long term. Acumen receives 1,200 applications from over 100 countries annually, for just 13 spots in the Global Fellows program. The typical

Fellow, a post-MBA social entrepreneur with an average of seven years of work experience, has become a valuable post-investment management resource for Acumen's portfolio companies. Today, 85 percent of all Global Fellows alumni are in leadership roles at social impact organizations, and 50 percent of alumni plan to start or have already started their social venture within five years of completing the Fellowship year.

Over the last three years, additional fellowship programs, such as Frontier Market Scouts, BizCorps, and Impact Business Leaders, have launched to connect talent with needs at social enterprises. These organizations present a new opportunity for impact investors to expand their talent pools without investing time and resources to manage such programs.

Implications for the Field

As the impact investing sector matures, so does its awareness that human capital is just as important as financial capital to support growing enterprises. Tremendous opportunities exist for human capital support systems to enable greater impact and efficiency.

1. Development of Local Talent Markets

The current interest in impact investing careers is driven by individuals in developed countries with a desire to work in emerging markets like India and Kenya. To ensure continued success, the sector needs to develop local talent markets to fill local needs. This is true not only in developing countries, but also in less popular areas in the U.S. One example is Acumen's Regional Fellows programs in East Africa, Pakistan, and India. Aimed at emerging leaders who are already driving social change initiatives in their communities, Fellows come together to build skills and create a community of like-minded leaders within their regions.

The sector also needs to help professionals in local markets see that impact investing and social enterprises are viable career options. Omidyar Network in India receives a number of applications from analysts and associates who want to break into the investing market but have little interest in the impact side of the work. Increasing awareness and prestige of these career paths will be important to draw more local talent.

2. Introduction of Human Capital Intermediaries

The human capital infrastructure of impact investing is underdeveloped. Opportunities exist for intermediaries focused on recruiting, training, and other services to enter in support of impact investors and their portfolio companies. The traditional investing space enjoys a plethora of executive search firms, job boards, and industry associations to support the talent needs of private equity, venture capital, and the companies in which they invest. As the impact investing industry grows, ancillary services to support human capital should naturally develop to meet demand.

3. Creation of Career Paths

It is inevitable that impact investing career paths will involve movement across organizations, given the small size of most firms and social enterprises. The industry would benefit from organizations thinking about their role in creating a broader talent pool that is not just focused on their own needs. Many more organizations will need to serve as springboards to benefit from talent that wants to come into the sector.

What's Next?

Impact investing holds an enviable market position: strong interest from passionate, purposeful, and intelligent professionals with both business and social impact experience who embody the spirit of innovation that has characterized the sector's impact on our global society. With a deeper understanding of its human capital needs, and a focus on the opportunities that exist to meet them, the sector can continue to foster innovation and impact as it matures. We are excited to see where it leads.

About the Author

Monisha Kapila founded ProInspire to help individuals and organizations achieve their potential for social impact. Kapila brings 10 years of experience in the business and nonprofit sectors. Prior to launching ProInspire, she was a senior business manager for Capital One Financial Corporation. Previously, she was a Harvard Business School Leadership Fellow with ACCION International, a pioneer in the commercial approach to microfinance. Kapila has worked with a number of leading nonprofit organizations throughout her career, including CARE, the Initiative for a Competitive Inner City, and the Clinton Foundation. She began her career as a consultant with Arthur Andersen. Kapila has an MBA from Harvard Business School, where she was recipient of the Dean's Award, and a BBA with distinction from the University of Michigan. She received her Certificate in Leadership Coaching from Georgetown University. Kapila has spoken about developing nonprofit leaders and social entrepreneurship at universities, conferences, and more. She has been recognized as an American Express NGen Fellow, National Urban Fellows America's Leaders of Change, and as part of the Aspen Institute's Socrates Society. She previously served as vice chair of the board for the I Do Foundation.

EARLY CHILDHOOD EDUCATION AND PAY FOR SUCCESS: FROM THEORY TO PRACTICE

Convening *co-hosted by the Aspen Institute and the Institute for Child Success*

INTRODUCTION

In June 2014, the Aspen Institute and the Institute for Child Success (ICS) co-hosted a roundtable that explored the potential for the emerging practice of pay for success financing to help scale proven solutions in the early childhood education field. Nearly half of all American children live in low-income families and face significant barriers to accessing quality early childhood education. Recognizing the significant evidence that investing in early childhood programs yield robust social and economic returns, the Aspen Institute and ICS are both committed to identifying and elevating solutions that can help advance proven early childhood programs.

Pay for success (PFS) financing is grabbing headlines and gaining interest from across sectors. As activity grows, there is an opportunity to improve understanding and facilitate substantive and meaningful dialogue among key stakeholders in the public, private, and social sectors. This roundtable brought together notable early childhood experts and innovators with investors, advisors, and intermediaries who have actively contributed to the early pay for success models.

This dynamic and interactive discussion explored (1) the current activity and interest related to PFS and early childhood development; (2) the design, structure, and early lessons learned from the first-in-the-nation early childhood PFS model that is being implemented by the Granite School District in Salt Lake City, Utah; (3) the suitability of existing early childhood programs and models for PFS financing; and (4) the key considerations and cautions for designing PFS models to expand effective early childhood models and outcomes.

Below are highlights and key themes from this conversation.

EVIDENCE OF IMPACT: INVESTING IN EARLY CHILDHOOD EDUCATION

The evidence for robust returns on investment in quality early childhood programs is strong and widely accepted. Investing in programs that support healthy development and learning in the first five years of children's lives has been shown to greatly improve and enhance readiness for school and adult health while reducing crime, special education utilization, and teenage pregnancy, among other outcomes.

WHAT IS PAY FOR SUCCESS?

PFS financing is an innovative type of public-private partnership that employs private capital to invest in social programs that have proven success. PFS scales programs that have a positive social impact and also save governments money, using capital from philanthropic funders and impact investors—not governments. Nonprofits deliver the programs and the government pays for the outcomes (which produce net long-term savings) if the program succeeds.

HOW DOES IT WORK?

The government contracts with an intermediary for carefully defined outcomes such as reduced crime or hospital stays or homelessness that produce net savings. Impact investors or foundations provide capital to scale up interventions that have been shown to produce those outcomes. The intermediary contracts with nonprofit service providers to operate the programs at a large scale. An impartial evaluator determines whether the outcomes are achieved. If the outcomes are achieved, the investors get a small return on their investment.

- For every $1 invested in high-quality early childhood education, taxpayers save at least $7 in social costs in the long-term, while also increasing the economic and educational outcomes for children.[1]
- Early childhood is the single most prolific period of development for children – 80 percent of a child's brain growth occurs between birth and the age of three.[2] Children in poverty, however, frequently do not have access to the same educational and developmental resources as their counterparts from higher-income families during this vital time.
- Children who participate in ECE programs show lower crime rates as adults, and both participants and their parents enjoy higher median income rates than their counterparts who were not afforded the same opportunity.[3] ECE participants are also significantly more likely to graduate from high school and are more likely to continue on to higher education.[4]

Return on investment findings for several early childhood programs suggest that these programs have the potential to be very well-suited for PFS financing, and, in fact, a number of projects are already underway.

UTAH SOCIAL IMPACT BOND (SIB)

The Utah SIB is a $7 million investment of private capital in the Utah High Quality Preschool Program. The 3,500 low-income children (3 and 4-year-olds) participating in the program will be given the Peabody Picture Vocabulary Test to determine how many, absent high impact preschool, would likely require special education services in the future. This PFS project involved the collaboration of several key stakeholders, including Goldman Sachs, J.B. Pritzker Foundation, and the United Way of Salt Lake. Success will be measured as the students' academic progress is tracked from K-6 grade, and will result in success payments to lenders from Utah state and local governments and facilitated by United Way of Salt Lake.

We want to continue to find mechanisms to engage early childhood experts and make sure that we are receiving the input, and more than just hearing it, that we are incorporating it into this work going forward.

- Joe Waters, Vice President, Institute for Child Success

PAY FOR SUCCESS: A TOOL TO EXPAND PROVEN PROGRAMS – SIGNS OF INTEREST

PFS is gaining traction at a time when various stakeholders are seeking ways to use their capital more effectively to achieve greater outcomes. Foundations and philanthropists are seeking ways to use PFS to complement their grant making efforts with an expanded toolset of financial vehicles. Faced with shrinking budgets, public agencies are looking for ways to cut costs. Private financial institutions are responding to growing consumer demand for financial products and investment strategies that are aligned with their values. At the same time, service providers and on-the-ground innovators are interested in developing sustainable ways to build capacity and improve outcomes for children.

Participants expressed enthusiasm for the considerable investor interest in PFS opportunities, specifically around early childhood development. Highlights included:

- PFS financing offers an intriguing opportunity for the early childhood field, but thoughtful and deliberate consideration remains important as early childhood PFS projects develop;
- There was significant individual investor involvement in the New York State PFS transaction offered to clients of Bank of America Merrill Lynch in December 2013, and the relative speed with which investor funds were raised from individuals and foundations for that deal is noteworthy;
- The number of PFS for early childhood development projects underway across the country and the interest, particularly from investors and their representatives, has been evident, including in the March 2014

1 Reynolds, Arthur, et.al. Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Center Program, June 2001
2 National Center for Infants, Toddlers, and Families
3 Brookings Center on Children and Families, Brief #54. July 2014
4 ReadyNation, The Vital Link: Early Childhood Investment is the First Step to High School Graduation.

ReadyNation conference on early childhood PFS held in Charlotte, North Carolina; and

- The use of Goldman Sachs' capital in the Utah Pre-K transaction and the involvement of investor J.B. Pritzker, who chose to invest his own investment capital — rather than philanthropic capital — in the Utah transaction were also actively discussed.

FROM THEORY TO PRACTICE: CAUTIOUS OPTIMISM

Over the last few years, the field has been characterized by interest, research, and testing. Now, we are seeing an increase of models moving into implementation. Participants did, express concerns about gaps in understanding the process and details undergirding early childhood PFS opportunities and specific challenges for PFS opportunities specifically in the field of early childhood. These concerns include:

- **Developing a Common Language:** The challenges of translating financial terminology for early childhood stakeholders responsible for developing, negotiating, or evaluating PFS opportunities. Early childhood experts around the table encouraged other PFS stakeholders to do a better job using clearer, more accessible language when engaging social service providers and social policymakers;
- **Increasing Transparency:** Confusion about how executed deals and projects in development are reported and discussed. Specifically discussed was a lack of clarity around populations targeted, outcome metrics, and the specific processes by which success payments are developed and executed;
- **Understanding Risk for the Field:** The consequences and management of reputational risk for the field should projects fail. Discussed in light of the Utah project, participants from Utah noted how the pre-K program in the Granite Schools is evaluated, has a multi-year proven track record, and that teachers and parents of students do not change their behavior a result of PFS funding. This was an occasion to emphasize that PFS financing is meant for proven programs with established track records of implementation, not for testing new and unproven programs;
- **Improving Knowledge Capture and Sharing:** The need to share more information across the field about developed and developing projects so lessons learned can be more widely understood; and
- **Identifying Proven Programs and Building Evidence:** The lack of clarity concerning which evidence-based early childhood programs to scale using PFS. Several participants noted that PFS provides real opportunities for early childhood programs, but that the real challenge to the field lies in understanding which early childhood programs are viable to scale using this finance mechanism. The need to build the evidence for existing programs was discussed as important for the further development of early childhood PFS opportunities. Philanthropic and government partners are indispensible in continuing to develop the field's evidence-base.

Conversations around the pay for success model are getting at some important questions around what is the social contract for the 21st century.

- Anne Mosle, Vice President, the Aspen Institute

OPPORTUNITIES: BUILDING ADDITIONAL CAPACITY FOR PFS IN EARLY CHILDHOOD EDUCATION

Participants recommended a number of next steps in order to ensure that additional PFS financing opportunities in early childhood develop thoughtfully and with full attention to ensuring the best outcomes for America's youngest children. Suggested next steps include:

- **Educate and Involve Service Providers:** Both investors and early childhood experts need to be equally involved in convenings to discuss and plan PFS work. Ultimately, service providers will be responsible for the long term implementation of the program and success of the project. More attention also needs to be given to the "stretch" that providers experience in rapidly scaling up their programs for PFS implementation. Providing capacity building opportunities for early childhood service providers will be important to ensure strong implementation and predicted returns.

We did not use foundation capital…we used private capital, and that was deliberate, because we wanted to be able to send a strong, unmistakable signal – that this deal was going to be diligenced as well as any other [private investment] deal.

- Jeff Schoenberg, Advisor, The J.B. and M.K. Pritzker Family Foundation (subordinate lender for Utah SIB)

- **Engage Early Childhood Education Experts:** Engage early childhood content experts in the discussion of field issues and in negotiations for specific PFS projects. Develop opportunities to fully investigate specific potential PFS service areas such as child welfare, home visiting, and pre-kindergarten and enable frank conversations between investors, providers, and early childhood experts for the development of PFS projects.
- **Disseminate the Discussion:** Convenings should be hosted increasingly outside of New York and Washington D.C. in order to engage a wider range of state and local early childhood stakeholders. PFS projects are primarily focused on the state, city or county levels and a healthy development of the field will include broad input from early childhood providers across the country.
- **Find and Elevate Proven Programs:** Finding the proven programs to scale will build more opportunities for state and local governments to explore PFS financing. It will be important to elevate awareness and discussion of particular programs and interventions, and evaluate, on an individual basis, the feasibility of expanding them through PFS models.

CONCLUSION

Pay for success financing continues to emerge as an alternative mechanism to bring needed funds to expand vital social services. The conversations hosted by this roundtable brought key insights to light that are critical to the increased visibility and use of PFS models in early childhood education. The impacts of early childhood education are proven to be socially and economically beneficial. As proven interventions across the nation, early childhood programs are an ideal platform to bring PFS financing as a tool to scale and bring more opportunities to low-income families with young children. An examination of the Utah Social Impact Bond provided important lessons learned and observations that will continue to inform critical ongoing discussions among practitioners, government agencies, and investors. In order to ensure thoughtful and successful use of PFS in early childhood development programs, it will be important to engage stakeholders in all stages of PFS project development, and to share developing knowledge freely and often throughout the field.

i(cs)

INSTITUTE *for* CHILD SUCCESS

Institute for Child Success

Since mid-2012, the Institute for Child Success has been engaged nationally, and especially in South Carolina, in thoughtfully creating the enabling environment in which pay for success financing for early childhood programs and interventions can develop. In addition to providing technical assistance, conducting feasibility studies, and working closely with program models, ICS believes that convening on this topic- with early childhood development experts, policy stakeholders, and pay for success experts- is a critical tool for sharing knowledge, critically appropriating the lessons of precedent PFS deals, and accelerating impact for young children and their families.

ECONOMIC ASSETS

IN THIS SECTION:

- Key facts on recidivism, affordable housing, place-based investments, and microenterprise
- Example investments
- Lessons learned

Building a healthy and skilled workforce is essential not only to the nation's economic growth, but also to building secure futures for families. A $3,000 difference in parents' income when their child is young is associated with a 20 percent increase in the child's future earnings.[xxxvi] Historically, impact investment activity related to economic assets has focused on affordable housing and access to finance. We are beginning to see investors exploring other areas for potential investment. Seventeen survey respondents indicated investing in ventures that address economic security, spanning the following areas.

RECIDIVISM

Today, one of the country's greatest challenges is the significant increase in people being incarcerated and the lack of real solutions for re-entry for these women and men. Recidivism remains a persistent social issue with significant implications for black and Latino communities. Recidivism also results in hefty taxpayer costs. Impact investors are exploring strategies to scale effective models and reduce public costs. Following the first pay for success model in the United Kingdom that was focused on addressing recidivism, three models in the U.S. have emerged to reduce recidivism rates.

What We Know

A national five-year study shows that in 30 states – with a study population of more than 400,000 prisoners – 68 percent were re-arrested in three years, and 77 percent were re-arrested in five years. In this study, recidivism was highest among males, black adults, and young adults. By the end of the fifth year after release, more than three-quarters (78 percent) of males and more than two-thirds (68 percent) of females were arrested, a 10 percentage point difference that remained relatively stable during the entire five-year follow-up period.[xxxvii]

Five years after release from prison, black offenders had the highest recidivism rate (81 percent), compared to Latino (75 percent) and white (73 percent) offenders.

The current rate of recidivism in the U.S. within a year is 69 percent. For juveniles, it hovers around 50 percent for one year and 70 percent for within three years of release. Here, also, the majority – around 95 percent – are black and Latino juveniles.

These numbers are high and translate into significant spending on incarceration and relatively low spending on helping people find productive employment post-incarceration. In 2012, the Vera Institute of Justice released a study that found the aggregate cost of prisons in the 40 participating states was $39 billion in 2010. The annual average taxpayer cost in these states was $31,286 per inmate. New York state was the most expensive, with an average cost of $60,000 per prison inmate.

New York City's jails have even higher incarceration costs, at nearly three times the state incarceration costs. New York City paid $167,731 to feed, house, and guard each inmate in 2012, according to the Independent Budget Office.

Investment Examples

- **Rikers Island:** In 2012, the first social impact bond/pay for success model was announced. The public-private partnership between Goldman Sachs Bank's Urban Investment Group (UIG), Bloomberg Philanthropies, the City of New York, MDRC, and the Osborne Association leveraged private capital and philanthropic support to provide therapeutic services to 16- to 18-year-olds incarcerated on Rikers Island. Goldman Sachs provided a $9.6 million loan to the Osborne Association via MDRC. Bloomberg Philanthropies provided a $7.2 million guarantee, and the Vera Institute is the evaluator. The rate of recidivism is expected to decrease, and the loan will be repaid based on the actual and projected cost savings realized by the New York City Department of Correction.[xxxviii]

- **Roca and the Commonwealth of Massachusetts:** Roca, a Boston Area organization serving high-risk youth, recently partnered with the Commonwealth of Massachusetts to launch the Massachusetts Juvenile Justice Pay for Success Project. The project's goal is to help almost 1,000 young men at risk of incarceration. Through the project, the state expects to avoid 248 incarcerations (224,205 days of incarceration), which would be a 45 percent reduction in incarcerations among the targeted population, measured through a randomized controlled trial evaluation.[xxxix]

- **Center for Employment Opportunities** (See case study on page 68.) – In New York City, another pay for success model involves helping adults leaving prison find employment. The social impact bond will provide $13.5 million over a 5.5-year investment life to expand the work of Center for Employment Opportunities (CEO), a provider of evidence-based training and employment programs to recently incarcerated individuals in New York state. This flexible, multiyear funding will cover the full cost of CEO's programmatic work and core costs to assist 2,000 individuals over a four-year period.

AFFORDABLE HOUSING

What We Know

In 2011, the majority of low-income working families (61 percent) spent more than one-third of their income on housing, exceeding an accepted guideline for what constitutes affordable housing.[xl]

Approximately 12 million households have housing expenses that take up over half of their annual incomes. Nowhere in the United States can a family with one full-time worker earning minimum wage afford to rent a two-bedroom apartment at fair-market prices.[xli]

In a recent study of how housing affects child development, researchers assessed stability, housing quality, renting versus owning, and subsidized housing. Of the four, poor-quality housing was the most consistently and strongly predictive of children's well-being across the span of childhood.[xlii]

Investment Examples

- **MacArthur Foundation** (See snapshot on page 77.)

- **Habitat for Humanity International: FlexCAP:** FlexCAP is a Habitat for Humanity International (HFHI) administered program that enables participating affiliates to borrow against selected mortgages in their portfolios, thereby generating funding to provide decent, affordable housing to deserving families. Through FlexCAP, HFHI has developed a consistent secondary market for Habitat mortgages on a national basis. Since 1997, FlexCAP and its predecessor program have generated $131.7 million in loans for 263 U.S. affiliates, providing funding for approximately 3,900 new Habitat

homes. During this 15-year history, there has never been a delinquency on the investor notes. HFHI estimates that its U.S. affiliates currently hold $1.4 billion in mortgages. Although Habitat mortgages have no interest, they are otherwise much like conventional mortgages and typically have 20- to 30-year terms. By using FlexCAP to accelerate the receipt of income from mortgages, affiliates recover the cost of Habitat homes in a much shorter period of time and receive ready cash to build more affordable homes.

- **The San Francisco Foundation Bay Area Transit-Oriented Affordable Housing Fund:** The San Francisco Foundation's Program-Related Investment Fund invested $500,000 in the Bay Area Transit-Oriented Affordable Housing (TOAH) Fund to bring to life transit-oriented plans across the Bay Area. Over seven years of collaboration, coordination, and trust-building among partners, The San Francisco Foundation's $500,000 seed loan was leveraged into a $50 million loan fund to develop affordable housing around transit. In December 2012, the TOAH Fund was awarded the Environmental Protection Agency's prestigious Smart Growth Achievement Award.

PLACE-BASED INVESTING

We know that place matters. Research and experience show that families do better when they live in strong and supportive communities. However, too many communities face challenges of high poverty, unemployment, failing schools, and housing instability. These outcomes are influenced by unequal access to opportunity and decades of disinvestment in marginalized communities. An equitable approach to ensuring that all neighborhoods become the kinds of places that enable all children and families to succeed and thrive requires intentional efforts to build, sustain, and operationalize certain types of community capacity. To this end, funders and federal officials are focusing their investments on place-based efforts to improve outcomes for families.

Detroit

For a city with less than 1 million people and less than 200 square miles, Detroit faces significant hardship. With unemployment rates hovering around 17 percent, the city needs major development efforts to increase employment. This is critical as the city faces a historically low housing market and crime rates that often lead the nation. Over more than 10 years, the city has launched numerous place-based initiatives to extricate itself from bankruptcy and its residents from poverty. Philanthropic efforts emerged to support programs aimed at those most in need. However, without a strong connection to public and private sector initiatives, those efforts did not bring the desired return on investment. Now, with the help of many national and local foundations, coupled with private investors and investment funds, there is a cohesive strategy to support the development of infrastructure, people, profit, and the environment. (See snapshot on Living Cities on page 81.)

Mississippi Delta

Effective place-based policies can influence how rural and metropolitan areas develop and how well they function as places to live, work, operate a business, preserve heritage, and more. These policies are particularly significant in the Mississippi Delta. The complexity and interconnectedness of needs in urban and rural Delta regions, coupled with the often untenable opportunity costs of working in both regions and their sometimes competing interests, make investments in this area challenging at best. For the past eight years, the Kellogg Foundation has addressed these hurdles with a holistic approach to community investment. First, the foundation has become part of the "place." The foundation has an office in the Delta so it can be a part of the community — its decision making, asset

mapping, and community and capacity building. Second, the foundation has invested in institutions that cross the varied communities. For example, the Healthy Living Initiative focuses on providing nutrition, healthy living, and related workforce development to communities through schools. So far, research shows the program is working.

The focus on place — and the respect for its diversity — is significant, as Mississippi is regularly reported last in major research standings, such as Kids Count. For example, the region has an estimated 61 percent high school graduation rate that falls slightly below the national figure, and school districts in the Mississippi Delta fare particularly poorly. More specifically, five of the 10 districts with the highest recorded four-year dropout rates are in Delta region counties: Leflore, Tallahatchie, Sunflower, Tunica, and Panola Counties.

Southern Bancorp: A Mission-Driven Bank

Small banks are closing throughout the southeast region, hamstrung by lending limits and capital requirements, or run by aging bankers without succession plans or exit options. But rather than pulling out, Southern is doubling down. As other Delta banks sell, or close, Southern Bancorp is a buyer, often the only one. Southern sees an opportunity for both financial growth and social impact in acquiring small banks and local branches that might otherwise simply shut down, leaving whole towns reliant on storefront check cashers or credit cards. Its social mission sometimes helps Southern strike a good deal.

One of the first banks to be designated a community development finance institution, or CDFI, Southern now has 38 branches in Arkansas and Mississippi, more than $1.1 billion in assets and made more than $3 billion in loans. More than half of Southern's personal loans are under $10,000. More than half its small business loans are under $55,000. Few commercial banks would even consider making such small loans.

In the face of the economic crisis, Southern successfully secured substantial impact investments, but for all its achievements, Southern still has not cracked the thing that almost all investors really want – a viable exit strategy. That leaves Southern facing a steep hike in the interest rates it pays on the capital it raised in 2009 and 2010. The ultimate resolution will represent a compelling example of the risks and rewards of impact investing. Risks are undeniably higher when a bank is working in a distressed region with low-income customers. They are higher again in the context of a global financial crisis that reordered market and regulatory conditions. Responding to such changes requires a flexible strategy and flexible investors. Such flexibility may be the ultimate differentiator – and competitive advantage – for impact investors.

New Orleans

After the devastating natural and man-made disasters (Hurricane Katrina, Gulf oil spill), this city and region has been hard hit in terms of employment, crime, and education. However, blight remains one of the most pressing issues for New Orleans Mayor Mitch Landrieu. Nearly 25 percent of residential homes and addresses in New Orleans have been blighted or left vacant over the past several years, representing one of the highest rates of abandonment in the country and surpassing other struggling cities like Baltimore, Cleveland, and Detroit. In 2010, the mayor made a commitment to reduce the city's blight by 10,000 units by 2014. Using a five-pillar strategy — including data-driven decision making and place-based revitalization, coupled with public-private partners, including city agencies and local foundations — the mayor exceeded his goal of 10,000 by April 2013.

Colorado

Place-based work can be initiated or led by the local government, its residents, local organizations, and/or be part of an external funders' (or other national organization's) larger strategy. In the

case of Colorado, Kaiser Permanente selected the state as a partner for its community health initiatives. Colorado has a high prevalence of binge drinking, high rate of drug deaths, and large disparities in health status by educational attainment. As part of this portfolio, the Kaiser Foundation will support strategies to address the obesity epidemic and other health issues that can result from poor nutrition and lack of exercise.

Kaiser hopes to strengthen and accelerate collaborative efforts among practitioners, policy makers, funders, and advocates from different fields. The foundation provides financial assistance, thought leadership, and coordination to support community partners in creating environments that encourage healthy eating and active living. Many local organizations will benefit from grants to make healthy food and physical activity available in underserved communities. Grantees include public health departments, community-based organizations, and coalitions; advocacy organizations that drive state and local policy agendas; and school districts implementing school wellness plans.

MICROENTERPRISE

What We Know

Investing in microenterprise programs is a cost-effective economic development strategy to create jobs that help build family economic security.

Market size

- The Aspen Institute's FIELD program estimates that the U.S. microenterprise industry served over 329,000 individuals and deployed nearly 37,000 microloans, valued at more than $292 million in 2012.[xliii]
- Thirty-one million people are collectively employed by 25.5 million microbusinesses (businesses with five or fewer employees) in the U.S.[xliv]

A FIELD survey of 1,198 microenterprises found that each enterprise created on average 1.9 jobs in addition to the owner.

- The median hourly wage paid per worker was 38 percent higher than the federal minimum wage, putting the families of those employees further down the path to economic security.[xlv]
- Individuals with a self-employed parent are two to three times more likely to engage in self-employment.

Barriers and Investment Examples

Microbusinesses have the potential to create jobs, stimulate the local economy, and provide much needed services and products in low-income communities across the U.S. However, micro-entrepreneurs face significant barriers, including access to affordable capital, ongoing business training and mentorship, and access to supportive networks.

- **Calvert – WIN-WIN** (See snapshot on page 74.) Leading up to 2012, Calvert Foundation noted a lack of opportunities for investors to invest in organizations and enterprises that create economic opportunities for women. In response, the foundation developed and launched WIN-WIN in March 2012, creating a targeted Community Investment Note option to enable individual and institutional investors to support women in areas such as affordable housing, financial inclusion, and

health care. The foundation selected potential borrowers based on those organizations' governance structures and products, targeting those that not only foster "equitable gender representation" at all levels of the value-chain, but also those that support low-income women through their service offerings. In December 2013, WIN-WIN surpassed its goal of lending $20 million to its WIN-WIN portfolio organizations.

- **Opportunity Fund – San Francisco Foundation:** The Opportunity Fund is a leading microlender to small businesses in the San Francisco Bay Area – creating jobs and economic activity by providing small loans to Bay Area entrepreneurs and small businesses. The San Francisco Foundation's Program-Related Investment Fund provided a $500,000 loan to The Opportunity Fund that will be leveraged to make upward of $1.5 million available to small businesses that are unable to access bank financing due to their size, credit history, or lack of collateral. The low- and moderate-income borrowers selected by The Opportunity Fund are all women or ethnic minorities.

- **Opportunity for Impact Investing to Advance Microenterprise** (See essay by Aspen Institute FIELD Director Joyce Klein on page 84.)

- **Capital + Training + Social Capital for Micro-entrepreneurs** (See essay by Social Enterprise Academic Director Peter Roberts and Village Capital Executive Director Ross Baird on page 89.)

Lessons Learned from Investments

- To help individuals achieve economic opportunity, we need to invest not only in jobs but also in employers. Investors in microenterprise know this better than anyone. Small businesses and entrepreneurs are the greatest job creators. Investing in individual enterprises through Calvert, intermediaries like Opportunity Fund, and related research activity via FIELD will continue to bring evidence, interest, and investment to real job creation engines.

- Investment in housing is key to support economic opportunity. Research has shown that the stability of an affordable mortgage or rent can have profound effects on childhood development and school performance and can improve health outcomes for families and individuals.[xlvi] But the benefits of affordable housing extend beyond its occupants to the community at large. Research by the MacArthur Foundation demonstrates that the development of affordable housing increases spending and employment in the surrounding economy, acts as an important source of revenue for local governments, and reduces the likelihood of foreclosure and its associated costs. Without a sufficient supply of affordable housing, employers — and entire regional economies — can be at a competitive disadvantage because of the subsequent difficulty in attracting and retaining workers.

- According to a 2014 poll by the American Planning Association, while many remain skeptical of the national economic outlook, there is greater optimism about the prospects for local and personal progress over the next five years. Therefore the local policy and financial framework has a tremendous influence over the economic trajectory of residents. The place-based investments in Detroit, Mississippi, and New Orleans have shown great promise in geographically focused investments by diverse but collaborative investors in quality of life indicators like housing, jobs, health, and transportation.

Opportunities for Impact Investing in Economic Assets

Over the years, placed-based impact investing has been a staple in many communities. Initiated with lending to CDFIs to support housing, job creation, and education, these investments have been instrumental to communities in New York, Philadelphia, Los Angeles, and across the South. Recently, impact investing has increasingly focused on place. Cities with large minority populations are sitting on the verge of bankruptcy due to lack of historical investment, decreasing federal support, and the quagmire of local politics. Investments in places like Detroit and Minneapolis bring hope. Through targeted investments in housing, transportation, and business, individuals and families are being transformed through new and sustained economic opportunity.

Key opportunities in the area of economic assets are:

- **Using diverse capital forms to initiate and sustain economic opportunity.** As noted earlier, the MacArthur Foundation uses impact investing to support local infrastructure and mitigate risk in the area of housing. The foundation has invested more than $9 billion since 1999 in a diverse set of investment vehicles to help minimize loss of housing stock, increase value of the housing stock, and make it affordable to residents and owners to maintain.
- **Collaborating to invest in local ecosystems.** Typical investors like to stay local and invest with their expertise. Shifting poverty rates and increasing economic opportunity require an array of investors with different areas of expertise. In Detroit, for example, by leveraging national and local financial institutions, Living Cities has invested in infrastructure projects — like transportation — to create sustainable systems to provide access to economic opportunity. High-net-worth investor Dan Gilbert has leveraged his own lending and equity investments, alongside those of foundations, to create opportunities for entrepreneurs and accelerators to invest in their companies or to provide places to safely move from proof of concept to the growth stage. Local and regional foundations, like the Kresge Foundation and the Skillman Foundation, are providing grants and loans to mitigate crime and blight and increase the soft and hard skills of the newly working and employed to get them on track. The diversity of skills, expertise, and investment are helping to transform Detroit and its residents.
- **Leverage data to scale what works and eliminate barriers.** The pay for success models underway by CEO and Roca build upon the core concept of pay for success and scaling what works. More important, it is investing in areas that often have long-term negative consequences for individuals. For example, formerly incarcerated individuals are barred from certain types of employment and civic participation. In some states, they are not eligible to vote if incarcerated. By supporting proven interventions in systems that actually cause long-term harm and dramatically decrease access to economic opportunity, these investments create economic efficiency and incentives to support asset development and economic well-being for those most at risk.

CASE STUDY:
REBUILDING LIVES, REDUCING COSTS: A NEW FINANCIAL MODEL FOR EMPLOYMENT VERSUS INCARCERATION

By David Bank (with Jessica Pothering), ImpactAlpha.com

The snow was blowing and it was in the 20s on Wall Street on the day after New Year's but dozens of mostly young, mostly black, and mostly unemployed men showed up for job training and placements on the first working day of 2014.

The men, all recently released from prison, were making an investment in their own future. They were eager to enroll at the nonprofit Center for Employment Opportunities, better known as CEO, which operates out of the 18th floor of a building in the heart of New York City's financial district.

Other, more familiar, fixtures on Wall Street — including former Treasury Secretary Larry Summers — are making an investment in the young men as well.

The ex-offenders lining up for employment help were among the first of 2,000 CEO clients in New York City and Rochester whose job training costs are covered under a "pay-for-success" contract financed by private investors. Bank of America Merrill Lynch offered the investment to its private banking clients, Between Thanksgiving and New Year's Eve last year, more than 40 high net worth investors committed $13.5 million.

If enough of the formerly incarcerated men stay out of prison, the investors stand to recoup their principal and plus a return that can range between 5 and 12.5 percent. If CEO's program fails to significantly reduce recidivism (with at least an 8 percent reduction in jail and prison days), investors will lose up to 90 percent of their money.

Pay-for-success contracts, colloquially known as "social impact bonds," are attractive to cash-strapped states and cities because they are obligated to pay only when the results are proven and the savings are realized. For investors, the investment proposition might more accurately be called "repaid-for-success." Private investors provide the upfront risk capital to finance the preventive

services. They get their capital back, plus a financial return, out of the government's avoided costs from a successful intervention.

The contract, issued by the state of New York, is not the first pay-for-success contract, but it is the first to be offered directly to individual qualified investors. In earlier deals, institutional investors, like Goldman Sachs, backed social impact bonds with their own capital; the New York State contract is the first test of private investor interest in financing this new way to deliver preventive social services. With a minimum investment of $100,000 and a five-and-a-half-year lockup, the private investors committed an average of $300,000 each. The whole deal was brokered by an innovative nonprofit called Social Finance, which has helped bring the pay-for-success model from the U.K. to the U.S.

"The idea that there may be a different way to attract new capital, coupled with ways to improve the actual results, was naturally attractive," says Paul Bernstein, who invested as executive director of the Pershing Square Foundation, Karen and Bill Ackman's philanthropic vehicle. Bernstein says Bill Ackman, known as an activist investor who makes big bets, took a personal interest in the innovative structure as a way around government's seeming inability to adequately fund even proven prevention techniques.

"If you really want this thing to scale and create a new funding model, you had to build a commercially viable approach, and they did that by bringing in BofA," Bernstein says. As for the investment, he says, "It's clearly not going to offer the best return you could get on any investment, but it's a viable part of a diversified portfolio."

Other investors include the Utah philanthropist James Sorenson's Sorenson Impact Foundation, the Robin Hood Foundation and the Laura and John Arnold Foundation. "Pay-for-success is a funding arrangement that allows governments to make risk-free investments in an effort to improve citizens' lives and ensure that taxpayer dollars are allocated in the smartest, most efficient way," said Leila Walsh, a spokeswoman for the Arnold Foundation, who added that any returns would be reinvested in future projects to scale up those that prove to have impact.

Performance-based contracting is common in areas such as energy efficiency, in which predictable savings allow energy service companies to guarantee their results. But they're new for social services, where conventional budgeting processes generally pay for services, not outcomes. To government bureaucrats, a reduced number of prison bed-days is at least as appealing as a lower electricity bill.

"What's most exciting intellectually is that the investment alpha is directly and explicitly linked to the social impact achieved," says Tracy Palandjian, the chief executive of Social Finance. "It's the very betterment of lives — the person getting a job, keeping a job, staying out of trouble — that is the source of the investment returns via government savings."

LIFE SKILLS

For social service providers, social impact bonds represent a sea change not only in the amount, but in the kind of available capital. Payment in advance eliminates the challenge of meeting expenses while waiting for government reimbursement. Since investors are repaid based on outcomes, not inputs, unrestricted funding is not tied to specific program components and can be spent on what works best. With costs covered in full, providers can focus on services, not fundraising. All of that is intended to help high-performing nonprofits with proven interventions thrive, not merely survive.

At CEO on a recent day, dozens of men cluster around tall bistro tables with bright green chairs in the glass-enclosed reception area, waiting for their next work assignments. The agency runs its own social enterprise and contracts with city agencies and other companies to provide transitional employment that builds basic work skills and habits.

Before they go out to work, however, CEO helps the men identify their own motivations in a one week Life Skills Education class. In two classrooms around the corner from the reception area, two Life Skills sessions are underway: one for younger participants ages 18-25, the other for older participants, some of whom have served sentences for more serious offenses, including murder and armed robbery.

In the first classroom, students are reading from an essay by basketball star Michael Jordan. "Everyone had a different agenda for me, but I had my own," reads one young man. Heads nod around the room. One student jokes his mother wanted him to be a basketball player. He wants to start a clothing line.

"I just don't want to go back to jail," says another.

In the other classroom, an instructor named Mary is leading about 20 men through a set of short, direct questions. "What is your goal when you leave this class?" Some of the responses, hesitant and mumbled sound like lines the men may have heard from others: "To better myself." "To take care of myself and my family." "To be a positive member of my community." Mary keeps pushing.

One man, wearing a collared shirt and glasses, lifts his head. "To get a job," he answers. Bingo.

"Today is graduation day," Mary says, as she distributes certificates and hugs. "Today marks something you started and something you finished."

The men will receive a badge, work boots, and their first assignment as official employees of CEO. Each employee is responsible for signing up for transitional job placements and can work at those sites for up to 75 days before moving into a permanent job placement. CEO seeks to place graduates in full-time jobs, ranging from the retail sector to food service to the construction trades. While challenges will remain, these are important steps on the ladder toward economic security and self-determination.

MEASURING OUTCOMES

An ounce of prevention is worth a pound of cure, or punishment. As measurement methods improve, social impact bonds are being developed for early childhood education, foster care, asthma, diabetes, and many other challenges.

Prison recidivism has been an easy and obvious target for the first social impact bonds in both the U.S. and the U.K. Reduced recidivism means dramatic savings in prison occupancy, victim assistance, and other social costs. Determining whether an individual is or isn't in prison is binary, rather than the shades of gray that can color program results in other areas. The average number of days of incarceration per person is easily measured, as are the state's financial savings.

CEO estimates intensive job support for people coming out of incarceration saves $60,000 per individual per year. New York state, for example, was willing to pay about half of that, or $85 for each bed-day saved. High levels of incarceration, particularly of young black men, is an increasingly charged issue in local and national politics, but pay-for-success financing transforms it into a rational calculation.

The state of New York can repay the investors' capital, with a modest premium, and still save millions of dollars in the long run. (It doesn't hurt that the U.S. Department of Labor will cover the repayment for service delivery taking place in the first two years, under a pilot program to test these kinds of financing arrangements.) That doesn't account for the improved prospects of the target population and the community at large.

Investors will start to receive repayments if the project reduces the number of nights the clients in CEO's target group spend back in prison by at least 36.8 bed-days per person, or 8 percent, compared to a similar group that does not receive CEO's services. If performance exceeds those thresholds, investors can earn up to 12.5 percent after five and a half years. Once the minimum is met,

investors get 100 percent of the state's savings until their capital is repaid, then split additional savings 50-50 up to the cap. If reductions are even more dramatic, the state keeps the additional savings. Most observers expect returns in the mid-single digits.

The program must also show a 5 percentage point increase in employment, perhaps the key determinant in staying out of prison. In New York state, an estimated 44 percent of formerly incarcerated individuals on parole who are unemployed return to prison within two years. For those with part-time unemployment it's 29 percent, and for those with full-time employment, it's 23 percent.

Pay-for-success contracts are not appropriate for bleeding-edge innovation; they typically work best to scale up proven, battle-tested interventions. CEO has honed its four-step process of life-skills training, transitional job training, full-time placement, and job retention over 35 years. A random-assignment trial in 2004 found that CEO's program achieved a 16 to 22 percent reduction in recidivism for recently released participants; some high-risk groups showed even better results. Employment results were less conclusive in the original evaluation, but CEO's internal data shows that additional post-placement counseling consistently boosted job retention over the last 10 years. With pay-for-success funding, CEO offers such follow-up help.

"The pay-for-success contract looks at, 'What is the benefit? What is the cost?" says Marta Nelson, who previously headed CEO's New York City office. "The benefits outweigh the costs, so let's pay what it actually costs.'" This shift is significant, as organizations like CEO can be paid adequately to deliver the comprehensive suite of services clients actually need.

Perhaps even more important, the contract is driving increased cooperation between the Department of Corrections and CEO. The data shows that CEO is particularly effective with high-risk clients that it can reach as soon as possible after release. In the new program, the participant meets jointly with a parole officer and a CEO outreach worker in the very first weeks after release. That "match candidate" meeting is intended to convey that the candidate has been selected for a program specially tailored to his needs.

"We message it in a very positive way," Nelson says. "And because it's parole, there's an element of a 'special condition' that conveys that you are required to go to the program. That combination gets people to walk in the door."

More broadly, the shared incentives mean state officials are eager to see the program work. CEO and state officials zip spreadsheets back and forth monthly, or even weekly, tracking enrollment rates to assess if the project is attracting the desired participation.

"Under an old contract, government is buying a service. They are worrying about whether you are sending in the forms, that you are not over-spending the budget. They are looking at expenses and services and not the bigger picture," Nelson says. "Once this is put in the frame of a benefit to the state, it opens it up to a much more collaborative way of working with the state."

The shift from measuring activities to measuring outcomes should be welcomed by top-tier social service providers that have evidence-based, rigorously evaluated models for long-term positive behavior change in high-risk, high-cost populations. But accountability and measurement should also shake out non-performers. Agencies that deliver mixed results or low repayment rates for investors are not likely to be selected for follow-on pay-for-success contracts.

CEO is confident it can replicate the results from its earlier random-assignment evaluations. "There's a risk we won't, so we could suffer," Nelson says. "If we don't succeed, it's going to be on the front page."

ROAD SHOW

If it all sounds complicated, it is. In the summer of 2012, New York asked for proposals to take advantage of the U.S. Department of Labor money to test social impact bond financing for job training programs. Selected to design and manage the project, Social Finance identified CEO as the provider of choice. In April 2013, the state legislature agreed to double the length of the program from two years to four years, supplementing the federal funding with state money.

Brace Young, a former Goldman Sachs partner and chair of Social Finance's board of directors, helped bring Bank of America on board. After several meetings, Andy Sieg, BofA's head of global wealth and retirement solutions, told Young, "This is fascinating. I don't know what it is, but I'm willing to dedicate a couple people from my team."

Rockefeller Foundation, a leader in promoting the social impact bond model, agreed to provide a 10 percent first-loss guarantee for all but the philanthropic investors. That provided modest reassurance for investors but is far lower than the similar guarantees extended in other social impact bond offerings. "We didn't want heavy-duty training wheels, but the market wasn't ready for a completely naked vehicle," says Palandjian of Social Finance.

Some of the negotiations were tough. CEO sought assurances its current donor list wouldn't be cannibalized for the new investment vehicle. Investors wanted assurances that fickle future legislators wouldn't renege on commitments. State officials sought a higher bar before payments are triggered. "You have to have a lot of room to make sure that even at the bar the investor is comfortable with, the state is saving a lot of money," Palandjian adds.

Measurement is key. The New York State Department of Corrections and Community Supervision will evaluate a randomized control trial that compares the employment and recidivism outcomes of the 2,000 participants served by CEO with a control group referred by parole officers to traditional service providers. An independent validator, Chesapeake research associates, provides an additional layer of review. (One complication: Members of the control group may enroll in CEO's services through other channel, which can be accounted for in estimating the impact of the project using statistical methods; however, if the enrollment rate in the control group exceeds a threshold, evaluators can instead use a historical baseline to determine whether the conditions for repayment have been met.) Investors will get quarterly updates on the project's performance.

In all, it took 15 months to bring the many parties and moving parts together and finalize a 130-page contract between the state and Social Finance, with CEO as a subcontractor.

Through the fall of 2013, Bank of America arranged a series of meetings between clients, their financial advisors, and the Social Finance team to drum up interest in the private placement. The complicated financial vehicle was unfamiliar to most investors. The first question asked of Palandjian in almost all the meetings: "Can you tell me again how this works?" The second question was often, "How do you measure it?"

For Bank of America, devoting hundreds of hours to a tiny deal only made sense as a way to dip a toe in the water of impact investing, an emerging must-have practice area for all major wealth managers. BofA offered the social impact bond specifically to its private banking clients with more than $10 million in investable assets.

"Our clients want it," concludes Surya Kolluri, Bank of America Merrill Lynch's managing director of policy and market planning. The 2014 U.S. Trust Wealth and Worth Survey found that half of high-net-worth investors consider environmental, social and governance (or ESG) issues to be an important part of investment decision-making. Kolluri says that over time, social impact bonds could become a key element of the "S" in ESG. That provides plenty of room for growth: BofA's ESG investment platform represents approximately $8 billion in client assets.

"Was the investor investing because it was comparable to other private equity investments or because it was a better way to do social impact?" Kolluri says. "I would conclude that it was because it's a better way to do social impact."

The key selling point, he says, was "velocity," the fact that the social impact bond could repay investors, who could then recirculate their money into additional social, or other, investments. "Velocity is an aha moment," says Kolluri. "It's very different than a grant in which the money is gone."

Simply having that conversation helped BofA strengthen its relationships with clients. Financial advisors are eager for anything that enables them to differentiate themselves from the competition and get closer to clients and their families.

"It's not about share of wallet, it's about share of mindset," says Jackie VanderBrug, the U.S. Trust executive responsible for developing the firm's sustainable investing strategy. "It's going to be a very small percentage of their portfolio. But it's going to be a big percentage of what they talk about around the Thanksgiving table with their grandkids."

As investor interest grows, the pay-for-success model has the potential to scale up much more dramatically than either government spending or traditional charity. Already, more than $50 million in private capital in the U.S. has been mobilized through pay-for-success contracts targeting early childhood education in Utah and Chicago, as well as recidivism in Massachusetts and New York City, in addition to the New York state contract.

Since the first deal closed, New York has announced four finalists to its request for proposals for partners on additional pay-for-success initiatives in early childhood and child welfare, health care, and juvenile justice. CEO, Social Finance, and another California partner are pursuing an additional pay-for-success project in San Diego. "Any place where you can invest a dollar of prevention today to save more dollars downstream is an appropriate allocation," Palandjian says.

More broadly, if the New York state deal signals a wave of private investment in social impact bonds, it could usher in something like a new social contract, aligning private capital and the common good. In an earlier era, proven approaches, often developed by nonprofits, could be taken to scale by government agencies that would implement them more broadly. With public budgets under severe constraint, private funding needs to fill the gap. Once the savings are proven with private investment at risk, government can incorporate the solutions into normal budget processes.

"In the global financial crisis, taxpayer funds bailed out some large financial institutions," Palandjian says. Social impact bonds flip that paradigm on its head. "Here, risks are privatized and gains are socialized. That's a new model, one harnessing private capital to serve the public good."

DEALS AT A GLANCE: CALVERT FOUNDATION

HEADQUARTERS
Bethesda, Maryland

LEADERSHIP
Jennifer Pryce, President and CEO

GEOGRAPHIC FOCUS: 80% U.S.; 20% international

FEATURED INITIATIVE
Women Investing in Women Initiative (WIN-WIN)

WEBSITE
www.calvertfoundation.org/winwin

DURATION OF INITIATIVE:
March 8, 2012 - March 8, 2014

ASSET CLASS: Debt securities

IMPACT AREA
Women's empowerment

CO-INVESTORS AND/OR PARTNERS
The Women in the World Foundation, Criterion Ventures, The Cordes Foundation, Eileen Fisher, Citi Foundation

Impetus and Rationale

Calvert Foundation, a Community Development Financial Institution (CDFI), raises capital through its Community Investment Note (CI Note), a fixed-income security that is available to investors starting at $20. Calvert Foundation has raised more than $1 billion through the CI Note, while intentionally expanding the investor-base from which those sales originate. They provide one of the few impact investment products available to retail investors through a brokerage account, for example, and have set a price-point within reach of non-accredited investors who control more than a third of the world's assets. In doing so, they add to a number of efforts that have helped to "democratize" the investment process, including the JOBS Act and the increasing enthusiasm among securities regulators for equity crowdfunding.

"Democratizing" the investment process requires more than setting an accessible investment amount and price point, however. It also means creating a product that resonates with the diverse interests and goals of investors and aligns with the capital needs of communities around the country, and the world. In recent years, Calvert Foundation has increasingly worked to recognize these interests and respond with investment initiatives such as place-based investing, women's empowerment and environmental stewardship.

What links these initiatives is the overarching goal of empowering investors to invest for social good by engaging them through issue areas or communities with which they identify. In each of these areas, Calvert Foundation sought to more clearly understand the capital needs on the ground—for example recognizing what type of capital would be catalytic to communities like North Minneapolis or Baltimore; or what type of capital would develop and scale certain issues like clean cookstoves and global health — and then articulate that narrative to investors through targeted marketing initiatives. As Najada Kumbuli, an investment officer at Calvert Foundation, notes, "We started to make the conversation less academic and financial, and more about the causes and places people care about. We embarked on a listening tour and started asking questions like 'What really matters to investors?' 'What kind of capital do borrowers need to transform communities in need and advance the field?' The idea is to keep it simple, so we can move the dialogue beyond the 'what' and 'why' of investing in women, or in the city you love, to the 'how'."

Initiatives

Women Investing in Women Initiative (WIN-WIN)

Leading up to 2012, Calvert Foundation noted a lack of opportunities for investors to invest in organizations and enterprises that create economic opportunities for women, and in response developed and launched WIN-WIN in March 2012. They created a targeted CI Note option to enable

individual and institutional investors to support women in areas such as affordable housing, financial inclusion and health care. The foundation selected potential borrowers based on those organizations' governance structures and products, targeting those that not only foster "equitable gender representation" at all levels of the value-chain, but support low-income women through their service offerings. In December 2013, WIN-WIN surpassed its goal of lending $20 million to its WIN-WIN portfolio organizations.

The WIN-WIN initiative was a key driver in the diversification of the CI Note. As Lisa Hall, former President and CEO wrote, "Calvert Foundation is expanding upon the theme reinforced by WIN-WIN's success — that by using our Community Investment Note as a tool to connect investors to issues they care about, we can continue to bring new investors into the impact investing field and reach new types of organizations with our capital." As of January 2013, 54 Calvert Foundation investors had converted their standard CI Notes to WIN-WIN notes (a net shift of $3.6 million), while more than 800 investors joined to help WIN-WIN exceed its $20 million lending goal.

Key WIN-WIN Statistics:[1]

- **Total Loan Amount:** $20,169,046
- **Investor profile:** 842 individual and institutional investors have invested between $20 and $10 million into the initiative
- **Investment Medium:** 83 percent of WIN-WIN investors invested online
- **Median online investment:** $200
- **Management:** 75 percent of financed organizations have majority female management
- **Issue Areas:** Affordable housing - 38 percent; financial inclusion - 38 percent; environment - 2 percent; education - 9 percent; health care -13 percent
- **Geography:** 80 percent U.S.; 20 percent international
- **Key Outcomes:** 165 small business financed; 5,090 micro-enterprise loans; 19,199 end women beneficiaries

Community-Driven Initiatives

Building on the successes and lessons learned from WIN-WIN, Calvert Foundation has launched a number of subsequent investments. These include:

- **The Ours to Own Campaign:** Ours to Own supports place-based investing. The national campaign was launched at the Clinton Global Initiative in June 2014 in two pilot cities, Denver and the Twin Cities, (with a longer term goal to reach 20 cities by 2020), to enable people to invest to create the change they want to see in their hometowns.
- **Diaspora Initiative:** This initiative is intended to tap into the energy and resources of U.S. Diaspora communities and create a new way for diaspora members to contribute to development of their communities in the U.S and their countries of origin.
- **Global Health:** Calvert Foundation is currently researching potential opportunities in the Global Health arena to understand where debt capital can play a catalytic role in providing affordable, accessible, quality healthcare to bottom of the pyramid populations.
- **WIN-WIN 2.0:** The second phase of WIN-WIN was launched in November 2014, maintaining its gender focus while exploring ways for clean energy to empower women at the bottom of the pyramid.

[1] *The outcomes presented here are as of June 2013, and do not include the impact from approximately $10 million in additional loans deployed at the end of 2013.*

Gender is not a sector – it's a theme, it's an identity.

Lessons Learned

Integration across verticals

All impact investing verticals, such as educational access or environmental stewardship, present opportunities to invest in women's empowerment. WIN-WIN helped articulate the cross-cutting nature of gender equity, and encouraged both the investor community and "last mile" institutions to rethink their impact through a gender-specific lens. An investment in clean cook stoves, for example, removes caustic smoke from both the environment and from the homes of its predominately female operators. Understanding these situations, and articulating them to investors, has helped Calvert Foundation support these types of mutually-reinforcing outcomes in the organizations they finance.

Learning through inclusive design

Calvert Foundation engaged in investment selection and the due diligence process with inclusive screens, which helped create a more diverse portfolio and allowed for a broad scan of the activity targeted toward women's empowerment. With limited existing research or desegregated data on women-specific investing, Calvert Foundation approached the process as an opportunity to further understand and define the field. In particular, two components helped to forward this process:

- An awareness and openness to existing research, which highlighted the socioeconomic benefits of investing in women
- A discipline to only collect "critical" metrics, particularly as they worked with partnering organizations to understand their impact through a gender-specific lens. This process helped the foundation identify which particular sectors represent both an investment and impact opportunity for the second generation of WIN-WIN.

Collaboration with ground-level partners

Throughout the course of WIN-WIN, Calvert Foundation leveraged the strength of multiple actors, research institutions, technical assistance providers, industry networks and borrowers in order to magnify the impact on women and girls. The impact of this work was much greater when all organizations worked together. In particular, the foundation worked closely with its borrowers in order to understand what type of capital would scale their work on the ground. As Ms. Kumbuli notes, "for our capital and the capital we use from our investors to be really catalytic, we needed to understand what type of financing would actually make a difference." In addition, Calvert Foundation worked closely with borrowers in order to collect and analyze impact data that would tell an effective and inclusive story to back to the investors to further motivate them to invest in women's empowerment. Technical assistance partners, like the Global Alliance for Clean Cookstoves, help strengthen the financial standing of the organizations, increase efficiency of business models, and provide training to entrepreneurs to improve their last mile distribution services. Development agencies, like USAID, provide critical risk capital (e.g. guarantees) to facilitate the investments, and networks like Power Africa & SE4ALL form a common working ground.

Calvert has learned that on-the-ground partners are vital to make sure investment initiatives are sustainable and scalable over time, creating a holistic approach to solving important social issues.

DEALS AT A GLANCE: THE JOHN D. AND CATHERINE T. MACARTHUR FOUNDATION

HEADQUARTERS
Chicago, Illinois

LEADERSHIP
Julia Stasch, Interim President

GEOGRAPHIC FOCUS: United States

FEATURED INITIATIVE: Window of Opportunity

DURATION OF INITIATIVE: 2003-2018

TOTAL CAPITAL DEPLOYED
$180 million ($123 million in program related investments)

ASSET CLASS: Debt securities

IMPACT AREA
Affordable housing preservation

WEBSITE: www.macarthur.org

The John D. and Catherine T. MacArthur Foundation is a private, Chicago-based foundation with over $6 billion in total assets supporting organizations in more than fifty countries. Beginning with its first series of Program Related Investments (PRIs) in 1986, the foundation has provided over $450 million in flexible, patient and creatively structured impact investments to advance its programmatic objectives in areas such as affordable housing, education, and women's health. The foundation invests to bridge capital gaps, using a "problem first-tool second" approach to facilitate deal flow where conventional financing fails to provide critical links within the market or capital structure. At the core of its investment strategy, the MacArthur Foundation seeks opportunities to support market actors that take creative approaches to entrenched social issues — fostering systems change through the demonstration value of highly-innovative deals and effective capital market intervention.

Since a strategic review in 2000, the foundation has limited its impact investments to support three programmatic areas:

- To help grow the capacity of existing well-managed CDFIs to serve the field;
- To advance community and economic development in Chicago, including the transformation of public housing and foreclosure prevention and mitigation; and
- To preserve affordable rental housing in Chicago and nationally through the **Window of Opportunity Initiative.**

The Window of Opportunity Initiative: Preserving Affordable Rental Housing

In 2003, the MacArthur publicly launched the Window of Opportunity Initiative in order to preserve and improve the stock of affordable rental housing nationwide. The foundation pursues this goal through the dissemination of rigorous research, data collection and long-term impact investments. Debra Schwartz, Director of Program-Related Investments, outlined the channels through which MacArthur works to strengthen the affordable rental market:

- **Enterprise-level investing:** The foundation invests directly in 24 innovative local, regional and national nonprofit affordable owners.
- **Special purpose vehicles:** The foundation capitalizes structured financing vehicles that support both for-profit and nonprofit owners.
- **Energy efficiency improvement:** In June 2014 Macarthur launched a $25 million initiative to support improvements to multi-family housing through energy efficiency financing programs.

Impact Investing in the Preservation Space

In order to ensure federal subsidies and low income restrictions remain in place on affordable housing properties, the foundation supports "preservation owners" as they purchase and recapitalize existing affordable rental properties. In particular, the foundation helps these owners move "quickly and nimbly" in the market as they navigate the series of regulatory processes that are required to bring new capital to bear for preservation. The extensive time delay introduced by both addressing these regulatory issues and raising permanent financing risks the loss of properties to market rate conversion. To bridge this timing gap, as well as a variety of issues in the affordable housing market, the foundation provides flexible, upfront capital to help mission-oriented owners move quickly in pursuit of a wide range of affordable housing properties, including value-add acquisitions, asset dispositions, and low-income housing tax credit properties.

Enterprise-Level Investing

Rather than underwriting individual projects, the foundation provides enterprise level finance to a group of dynamic market actors willing to take on complex, groundbreaking transactions in the affordable housing space. The 24 owner/developers are highly innovative, dedicated to preservation and willing to take on transactions that are breaking ground for others. These owners are deliberately selected to cover a variety of geographies and housing challenges, as well as to serve a variety of populations. As preservation involves many different forms in different contexts — including small and large properties, urban and suburban, tax credit properties and unsubsidized properties ("de facto" affordable housing) — the foundation selected diverse market actors to achieve far-reaching demonstration value for the field. As Debra notes, "these are the kind of practical players who are lifting up an issues, who are highlighting problems, who are trailblazing solutions, and the investment capital we're providing is helping to drive their practice and their contribution to larger systems change." The average terms of these direct investments are typically 10 years, between $1.5 and $5 million, with a 1 percent interest rate.

Special Purpose Vehicles

In addition to direct financing, MacArthur capitalizes special purpose vehicles that support both for-profit and non-profit owners across the country. These financing vehicles take a structured approach to preserving affordable housing, often including PRIs, commercial investments, and public funding in the capital stack. Since preservation efforts take on different forms in different markets, owners needed patient, risk-tolerant, and flexible funding to overcome the challenges of regulatory approval processes.

An **enterprise-level investment** in Aeon Homes enabled the renovation and preservation of affordable housing in the Minneapolis suburb of Roseville, Minnesota. The Har Mar Apartments was a deteriorating property and home to poor and transient individuals and families. By 2012, Aeon Homes, in partnership with the local government, had resurrected the property as Sienna Green through sustainable renovation and construction methods. In a town where rental housing made up only 3 percent of housing stock, Sienna Green provided 170 affordable rental apartments to residents earning less than 60 percent of area median income.

Energy Efficiency Improvement:

MacArthur recently allocated $30 million ($25 million PRI, $5 million in grants) to driving energy efficiency in multifamily housing. This aspect of the initiative focuses on financing innovations that MacArthur believes will build investor confidence and facilitate the upgrading of affordable housing with greener technologies. Examples of possible investments include providing financing for a public purpose entity service company focused on solar technology, and a pay-for-success

demonstration to retrofit older properties in the Housing and Urban Development portfolio.

Lessons Learned

Raise Visibility through Applied Research

Before officially launching Window of Opportunity, the team at MacArthur realized there was a significant lack of information regarding the rental housing stock, the risk factors affecting the erosion of affordable housing, and the geographical trends of the market. The biased focus on homeownership meant a lack of academic attention to rental housing. This led MacArthur to fund a study conducted by the Joint Center for Housing Studies at Harvard to give the field practical information to inform their decisions and to raise visibility around the problems facing affordable housing.

The attention to data and applied research continued through the initiative, as MacArthur invited states and localities to apply directly for grants and PRIs in 2007. Many of the grantees created regional data clearinghouses, allowing market actors access to more accurate information on housing stock, and government agencies a set of common data to organize around.

Bridging Capital Gaps

Through their impact investing portfolio, the foundation invests to bridge both transient and structural capital gaps in the market. Unlocking capital allows transactions to happen in a shorter time frame, and leverages additional funding for developers and owners to preserve and maintain affordable housing properties.

- Transient gaps are "one time" problems that normally diminish as markets mature and investors standardize investment practices. These investments address issues such as information asymmetries

SPECIAL PURPOSE VEHICLES: THE ENHANCED TAX CREDIT FUND

The Project-Based Section 8 housing program is a government-funded initiative in which federal and/or state government provides subsidies directly to a property developer or owner. The subsidy is tied directly to the property ("non-portable"), unlike many voucher programs which are tied to the renter ("portable"). Because this subsidy is attached to a building, nonprofit and private developers have traditionally been able to borrow against that future pledge of government revenue guaranteed by the Section 8 contract. Following the financial crisis in 2007, however, investors began requiring large cash reserves to compensate for the risk that Congress would fail to appropriate money under long term subsidy contracts such as Section 8, which are subject to annual budget appropriations. To address this "appropriation risk," investors began requiring large reserves to cover any shortfalls that could occur between section 8 rents and market rent were congress to fail to act.

The large, upfront cash reserve requirement forestalled many preservation deals, particularly those outside of coastal cities where housing markets became ubiquitously weak following the financial crisis. Even though many of the properties had long-term subsidy contracts, were fully occupied, and managed by responsible owners, preservation investors could not raise capital in the market.

In 2011, The Macarthur foundation entered a $100 million Enhanced Tax Credit Fund to address the issues of appropriations risk and help facilitate the inflow of commercial capital to Section 8 Low Income Housing Tax Credit properties. In partnership with the National Affordable Housing Trust and Cornerstone Real Estate Advisers, the foundation contributed $20 million to the fund, which includes partnering investors such as JP Morgan Chase, Mass Mutual, MetLife and United Bank. As Debra notes, "The Cornerstone Enhanced Tax Fund showed there was a way to unfix this market that didn't require fully guaranteeing those federal contracts. If we were willing to even take 20% of exposure, equity investors would get rid of tax reserve requirements." The $20 million guarantee raised $120 million, which, in turn, leveraged $200 million of debt. In other words, the $20 million guarantee leveraged $420 million of permanent capital for preservation deals.

and insufficient data, and seek to contribute to an evolving body of knowledge that helps to build investor confidence through standardization and an expanding track record of success. An example of this would be energy efficiency investing, which is still in a demonstration phase.

- Structural gaps are long-term, entrenched problems in which markets systemically fail to meet the needs of communities. The gaps are perpetuated by existing policies or market deficiencies, such as wage stagnation in the face of rising rents. In these cases, the foundation invests to build efficiencies in how policymakers and market participants allocate subsidies.

Policy Change through Practice

The Window of Opportunity investments drive innovation at the transactional level that is in turn helping to drive systems change. As Debra notes, "those developers are some of the biggest policy change agents you could find. Because what we found early on the policy making we needed to influence was at the transaction level. It had to do with — how will the rules be interpreted deal by deal? The lenders and developers were the ones sitting at deal table who were able to change paradigms — driving policy change through practice."

DEALS AT A GLANCE: LIVING CITIES

HEADQUARTERS
New York, New York

LEADERSHIP
Ben Hecht, President and CEO

GEOGRAPHIC FOCUS: United States

SOCIAL INVESTMENT PRACTICE TEAM
- Eileen Neely, Director
- Brian Nagendra, Senior Investment Associate
- Ellen Ward, Senior Investment Associate

SOCIAL INVESTMENT PORTFOLIO INCEPTION: 2008

TOTAL CAPITAL COMMITTED TO IMPACT INVESTMENTS
$40.2 (since inception)

TOTAL CAPITAL OUTSTANDING: $17.5

TOTAL NUMBER OF INVESTMENTS MADE: 18

IMPACT AREA FOCUS: mixed-use/mixed-income developments, place-based investments, pay for success

WEBSITE: www.livingcities.org

Impetus and Rationale

Living Cities was founded in 1991 and is a collaborative of 22 foundations and financial institutions that has invested nearly $1 billion in support of underserved and low-income communities in the U.S. Living Cities has promoted economic growth and neighborhood stabilization at the local level by applying place-based principles to deliver improved outcomes to the communities they serve.

Launched in July 2008, the Living Cities Catalyst Fund is a domestic impact investment vehicle that deploys concessionary, flexible debt from socially motivated investors. The Catalyst Fund complements the organization's grantmaking, research, and policy work as a way to advance the Living Cities programmatic agenda that is focused on working with cross-sector leaders in cities to build a new type of urban practice aimed at dramatically improving the economic well-being of low-income people.

As an example of how this lands in a place, in 2010, the organization began investing in the revitalization of Detroit. A large part of these efforts focused on cultivating investable opportunities within the city. Detroit lacked a strong infrastructure of financial intermediaries that would be able to collaborate with local or national investors to achieve systemic impact. Living Cities started small in order to realize a series of successes that would build confidence that the local economy, along with social and political systems, could be turned around.

Living Cities focused their early investments in Detroit's Woodward Corridor, a small but highly concentrated district that housed 11 percent of Detroit's businesses and almost 55 percent of the city's jobs.[1] The investments were poised to add momentum to a number of projects already underway along the corridor, including a series of real estate acquisitions by Dan Gilbert, founder and chairman of Quicken Loans, and the Kresge Foundation's funding of the M-1 rail system. Through a mix of grants, program-related investments and intermediate- to long-term commercial debt, Living Cities' sought to accelerate the "re-densification" of the city's increasingly networked urban core by encouraging individuals and institutions to return and invest in the city.

Investments

Integration Initiative

Living Cities' Integration Initiative is an $85+ million campaign designed to foster systems-change in Detroit and eight other cities in the U.S. The initiative targets cities that are taking on a long-believed intractable challenge, working to influence regional dynamics to more effectively meet the needs

1 Brookings Institution

DRIVING NEEDLE-MOVING CHANGE: LESSONS FROM DETROIT

- **Human revitalization:** Move beyond real-estate secured social investments to forms of outcomes-based investing that build human capital.
- **Collective Impact:** Form partnerships that bring together public, private and philanthropic leaders, allowing a variety of market actors to leverage their respective influence, skills and resources to solve complex problems.
- **Catalytic Funding:** Repurpose traditional grant funding streams to more effectively catalyze private investments.
- **Innovative Financing Models:** Continue to explore new models to structure and blend public and private sector dollars.

of low-income communities through a collective impact framework. Between 2010 and 2013, the Integration Initiative allocated $21.75 million to Detroit, through a mix of grants ($2.75 million), concessionary philanthropic debt ($4 million) and commercial debt ($15 million). The investments targeted social and economic dimensions to "align anchor institution hiring and procurement, land use planning, transit corridor development, and neighborhood revitalization."[1]

Investments included:

- Concessionary philanthropic debt and commercial debt to Capital Impact Partners (formerly NCB Capital Impact) to finance an array of community assets including mixed-use/mixed-income developments;
- Grant support for initiative and programmatic management and interventions from coordination of "live local, buy local, and hire local" strategies to hiring of city staff to accelerate the business licensing process along the Corridor; and
- Grant support to Data Driven Detroit for creation of an integrated and accessible data system that can be used to track progress and adapt strategies to what is working.

Key Lessons-Learned from Recent Living Cities Investments, in Detroit and Beyond

Seed the Ground to Reduce Risk for Public and Private Investment

The work of deploying private capital as part of the Integration Initiative was easy in theory, but challenging in practice for a number of reasons. Despite the fact that there are over 900 community development financial institutions (CDFIs) in the United States, in three of five participating cities there were not any local borrowers who had the financial strength (assets on their balance sheet) and programmatic expertise (depth of lending to activities desired by sites) to serve in that role.

When Living Cities began investing in Detroit, for example, there were few intermediary channels through which Living Cities could lend at the local-level. And, there was limited demand for commercial capital — even within the city's denser, urbanized areas. Therefore, it was important to "seed the ground" for future investment and to mitigate some of the economic challenges associated with geographic dispersion. Living Cities concentrated "hyper-local," predominately real-estate secured investments throughout the Woodward Corridor submarket. By targeting a condensed, urban enclave, and leveraging anchor institutions such as Wayne State University and Henry Ford Health Systems (two of the largest employers in Detroit), these early investments helped to achieve a "tipping point" that signaled to the broader investor community that Detroit was a viable public and private investment in the midst of economic transition.

Build Vehicles that Aggregate Capital and Facilitate Long-term Growth

Woodward Corridor investors have encouraged economic diversification in place of the automotive monoculture of the preceding decades. Incubators such as Techtown, Wayne State University's accelerator and research facility, have driven innovation and broadened leadership networks in

[1] *Living Cities Integration Initiative: Detroit Profile*

the city. Meanwhile, multipurpose and multi-tiered funds such as the New Economy Initiative have propelled economic growth in areas such as small business development and green-technology. As Mr. Hecht notes, these types of funds, comprised of flexible, patient capital, "fill gaps that can take advantage of the world as it changes," while also providing a framework for future commercial investing and catalytic government dollars. This reality played out in different ways in other Integration Initiative sites as well.

Drive Investments in Human Revitalization

Historically, most impact investments have restored or revived the physical environment; for investments that could be secured by real estate, social investors have succeeded in layering various types of subsidies and philanthropic debt to generate social and financials returns. And while investments in physical revitalization provide the framework in which communities can flourish, social investors should continue to explore opportunities to invest directly in the type of improved social outcomes and "human revitalization" that occurs within those settings. For example, Living Cities has participated in two social impact bonds in Massachusetts and New York, and continues to explore opportunities to mobilize outcomes-based funding and financing in Detroit and elsewhere that will invest in human capital not just physical revitalization.

• POINT OF VIEW •

WANT IMPACT? BUILD MARKET-RELEVANT MICROLENDERS

Joyce Klein, Director of the Aspen Institute Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination

The Aspen Institute Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) was established in 1998 to build on the work of the Self-Employment Learning Project, the leading domestic microenterprise evaluation and public education program at the time. Since its inception, FIELD has maintained a focus on the U.S. microenterprise industry - exploring innovation, evaluating new ideas, helping to build the industry's infrastructure, disseminating best practices to practitioners and serving as a resource to donors interested in microenterprise.

The ability of microenterprise finance to create jobs and raise incomes in the U.S. has been well documented. U.S. microenterprise lenders operate in an established but dynamic financial services market; one that either fails to reach many entrepreneurs who can create opportunity for low-income communities, or offers them only high-priced and sometimes predatory products. There is an opportunity to use impact investment to build the strength and scale of market-relevant, mission-driven lenders.

Statement of problem

In addition to creating jobs for low-income families, microbusinesses are also a driver of wealth accumulation. Research has documented that microentrepreneurs who receive microbusiness loans provide jobs and needed income for themselves and for others in their communities. In the wake of the financial crisis and the recession, the financial services and small business lending sectors are in the midst of dramatic change. This change creates an opportunity for relevant microenterprise lenders (community development financial institutions) to play a critical role in filling gaps in providing business credit and in shaping the sector's growth of the sector in responsibly. There is an emerging set of high-capacity microlenders poised to scale significantly using impact investments as a tool. However, because the very smallest loans they make currently are not profitable, they need financing in forms and with terms that support their ability to scale, innovate, achieve greater self-sufficiency, manage risk, and maintain relevance in a dynamic environment.

Why microfinance?

We know small businesses create jobs. What is less well understood is the role that microbusinesses (firms with five or fewer employees including the owner) play in creating opportunities for income, work, and wealth creation for low-income families. Rates of self-employment are higher among individuals without

a college degree,[1] and self-employment is a growing part of our labor market. Business owners comprise about one out of 10 workers but collectively hold 37.4 percent of total U.S. wealth.[2] Self-employment also offers opportunities to balance caregiving and income-generating needs. Research funded by the

Small Business Administration's Office of Advocacy found that self-employed women spend more time on child care activities than women wage-and-salary workers, and men.[3] For these reasons, it makes sense to consider the role of self-employment and business ownership as a tool for economic advancement among low-income communities.

There are also strong intergenerational effects to self-employment. More than half of all business owners have a family member who was engaged in self-employment. Individuals who have a self-employed parent are two to three times more likely to engage in self-employment.[4] Research has also found that business outcomes are stronger among individuals who worked in a family member's business before owning their own.[5]

Women and entrepreneurs of color have faced challenges in growing their businesses because of a lack of capital. Higher amounts of start-up capital lead to stronger outcomes in terms of business survival, sales and profits, and job generation. Business owners who previously worked in a family-owned business also have higher rates of success.[6] The challenges that women face in accessing capital, and the lower levels of wealth among African American and Hispanic communities inhibit business ownership and growth among these groups – both now, and in future generations.

Microfinance can support the growth of microbusinesses, particularly with women and minority entrepreneurs. FIELD at the Aspen Institute has been collecting data on the U.S. microenterprise organizations for 20 years. Among the more than 90 microenterprise lenders that reported data to FIELD for 2012, 50.7 percent of clients were women, and 51.8 percent were minorities. Research conducted by FIELD with 24 microfinance organizations in 2012 found the following outcomes for businesses owners one year after receiving a loan:

- 96% were still in business.
- Median business revenues increased from $69,776 to $100,000.
- 81% of owners worked full-time in their business.

INTERGENERATIONAL EFFECTS OF BUSINESS OWNERSHIP

- Business owners comprise one in 10 workers but hold 37.4% of total wealth.
- Individuals with a self-employed parent are two to three times more likely to engage in self-employment.
- Business outcomes are 11 to 38 percent better if the owner worked in a family business prior to starting his or her own business.

Source: Fairlie, Robert W. and Alicia M. Robb, The Causes of Racial Disparities in Business Performance. Washington D.C.: National Poverty Law Center Policy Brief #12, October 2008, p. 1.

1 Hipple, Steven B, Self-Employment in the United States. U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review, September 2010, p. 24.
2 Fairlie, Robert W. and Alicia M. Robb, The Causes of Racial Disparities in Business Performance. Washington D.C.: National Poverty Law Center Policy Brief #12, October 2008, p. 1.
3 See http://www.sba.gov/advocacy/self-employed-women-and-time-use, accessed on 7/23/2014.
4 Fairlie, Robert W. and Alicia Robb, Families, Capital and Small Business: Evidence from the Characteristics of Business Owners Survey. Yale University Economic Growth Center, Center Discussion Paper No. 871, p. 7. http://www.econ.yale.edu/growth_pdf/cdp871.pdf, accessed 7/23/2014.
5 Fairlie and Robb, The Causes of Racial Disparities in Business Performance, p. 3.
6 Fairlie and Robb, Families, Capital and Small Business, p. 13.

- Median owners draw was $12,000. The median draw for entrepreneurs who worked full time in their business was $17,600.
- 59% of the businesses employed paid workers. On average, the businesses employed 3.2 workers, including the owner.
- The businesses paid a median hourly wage of $11.06.

The context for mission-driven microlending in the United States

Since the Great Recession, traditional financial institutions have retrenched from the small business lending markets, reducing access to credit cards, and business lines of credit – the typical sources used by the smallest firms. In recent years, a set of new financial services providers have begun to emerge, seeking to meet the needs of the growing number of un- and underbanked Americans. Some of these new entrants offer very high-priced products. Mission-driven microlenders can play a critical role in this market but require specific forms of capital if they are to grow and remain relevant.

As the market for microbusiness loans matures, two tiers are emerging. The first tier provides small amounts of start-up and working capital that can be financed based on personal character and/or personal cash flow, such as credit cards, small personal (consumer) loans, and savings. In this tier of the market, loans typically range between $500 and $1,000; although some go up to $10,000. These loans are typically used by very small businesses that provide supplemental income to the family, or are in their earliest stages of development. There are both nonprofit (Grameen USA, Kiva, and Mission Asset Fund), as well as for-profit firms (Progreso Financero, eMoneyPool) in this tier. Lenders in this tier are usually providing a mix of consumer and business loans. They draw their capital from a variety of sources: many nonprofits rely heavily on grant support and donations, and some have harnessed peer-to-peer or even their own participant's resources; while for-profit firms have used traditional venture investment and seek socially-motivated investments.

The second tier focuses on cash-flow based lending that can take businesses to the next level of growth. The loans tend to be between $5,000 and $50,000. This tier of the market includes borrowers who may in the past have been able to access credit cards and bank lines of credit. Banks are participating in this market to a far lesser degree than pre-Recession, although there are some signs

USING IMPACT INVESTMENT TO INCREASE MICROLENDING SCALE AND SELF-SUFFICIENCY: OPPORTUNITY FUND AND ACCION IN THE MOUNTAIN WEST

Opportunity Fund and Accion in the Mountain West are two microlenders that are poised to substantially increase their scale and self-sufficiency with the right mix of capital. Both organizations are among the largest nonprofit microlenders in the U.S., with Opportunity Fund originating 1,425 loans in FY14, for a portfolio of $27 million. Accion Mountain West anticipates originating approximately 1,000 loans for close to $20 million. Their projected self-sufficiency ratios for this year range between 53 and 65 percent. And each organization has laid out growth projections that result in substantial growth: Opportunity Fund projects making 3,000 totaling $60 million over the next two years, and Accion has set a goal of making more than 2,700 loans totaling $40 million in 2017.

To achieve these levels of growth, both organizations are engaged in efforts to raise both grant (or "subsidy") contributions, and investment capital. Grant funds and contributions will be used to cover operational expenses not covered by loan income (including investments in technology aimed at streamlining operations, and the expansion of new loan products), and to provide additional net assets for their lending pools. The five-year projections call for these organizations to raise between $15 and $20 million in grants and contributed capital, and to raise between $31 and $40 million in debt or investment capital over the course of their growth plans.

they are re-entering the market. This tier also includes entrepreneurs who have never been able to access formal financing due to a weak personal credit history or lack of strong business records. Nonprofit microlenders, who have served this market for two decades, worked to scale up after the recession but face challenges to growth in part due to the lack of growth capital to support organizational development. In the past few years, new for profit lenders have entered the market; many of these are online lenders that relying on scoring models and often take daily payments from the borrower's bank account or a percentage of credit card revenues.

The business models for lenders in the second tier are challenging. Customer acquisition costs are high. Underwriting costs are also a factor. Although the largest-scale nonprofit microlenders are working to develop or improve scoring models, their lending models still require some review by an underwriter. Many of the for-profit lenders achieve profitability through pricing that ranges from 30 percent at the low end to well above 100 percent. The short terms of some of these loans can also be problematic. While these lenders offer rapid access to financing, in the long term they drain scarce cash from a business. Although some nonprofit lenders seeking growth and greater sustainability have raised their rates, they seek a balance between greater scale and self-sufficiency, and charging rates that limit the ability of the businesses to grow and pay the owners and their workers more.

Leveraging impact investments to grow the availability of affordable, responsible business financing

A relatively small but dynamic set of nonprofit microlenders is working to achieve greater scale and sustainability, and has developed significant growth plans. To do so, they need to attract capital that allows them to grow, innovate, and respond to and influence market conditions. Given the cost structure of their lending, these lenders require loans to fuel their lending activities, and grant funding (growth capital or philanthropic equity) of two types: grants for operating support that enable them to improve the systems and staffing required to grow, and grants for net assets that enable them to borrow additional capital, while providing the equity base to manage the risk inherent in growth.

Deploying impact investments into growth-oriented microlenders will not require new financing schemes. Existing financing vehicles and strategies such as program-related investments, pooled capital, and grants to build net assets are what are needed, although there may be new or more concerted ways to deploy them. To build the sector, investors should consider the following:

- Microlenders need funds invested at the level of the enterprise (or organization) rather than investments in specific programs or markets. Enterprise-level funding provides needed efficiency (in terms of both deployment and reporting) and flexibility to grow.
- The higher the cost of capital, including the transactions costs associated with it, the slower the organization's progress toward sustainability. Given that none of the large-scale microlenders is operating at break-even, cost of capital will make a significant difference. Most microlenders will weigh the interest rate, amount and term of financing, and the transactions costs involved in securing the investment and meeting related reporting requirements. Most large-scale microlenders currently manage extremely complex capital pools and expend significant resources in raising and reporting to investors and donors. Some may be willing to pay somewhat higher rates for larger amounts of capital with less onerous reporting requirements.

- Investors should expect that the strategies and growth projections pursued by mission-oriented lenders may change as the market evolves.
- Investors interested in emerging for-profit, mission-driven lenders should closely examine the features and price of the products they offer, and assess whether these firms focus on building the long-term health of their borrowers.

Conclusion

We need to grow jobs, income and wealth. Microenterprise is a strategy that can have short-term impact in providing income to families –but can also have intergenerational and community-wide effects. Impact investments can be a critical tool in providing the capital needed to take growth-oriented microlenders to the next level of scale and sustainability.

About the Author

Joyce Klein is Director of the Aspen Institute Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD).

Ms. Klein has worked with FIELD for fifteen years, and has more than 20 years of experience studying and supporting microenterprise and entrepreneurial development programs in the United States. Her recent work has included the Scale Academy for Microenterprise Development, in which FIELD is helping leading microenterprise organizations in the U.S. to increase their scale; the Asset Building through Credit pilot, which is working with microenterprise programs to offer a secured credit card as a credit- and asset-building tool for entrepreneurs; and FIELD's new leadership development program for the U.S. microenterprise field, ELM2.

Ms. Klein also has worked as a consultant in the microenterprise field, providing assistance to clients including the Community Development Financial Institutions Fund of the U.S. Department of the Treasury, and CFED (formerly the Corporation for Enterprise Development). Prior to her work with FIELD, Ms. Klein led CFED's work in microenterprise development. She holds a Master's Degree in Public Policy from the University of California at Berkeley and a B.A. in Economics from Boston College.

CLOSING THE MICROBUSINESS GAP WITH TARGETED INVESTMENTS IN SOCIAL CAPITAL

Peter W. Roberts, Social Enterprise @ Goizueta,
and Ross Baird, Village Capital

Social Enterprise @ Goizueta (SE@G) is based in Emory University's Goizueta Business School. The focus of SE@G is that of applying business acumen and market-based solutions to achieve meaningful and enduring societal impacts. By actively working across the spectrum of for-profit, nonprofit and hybrid organizations, its faculty and students become participants in important conversations and debates that are taking place in business schools around the world.

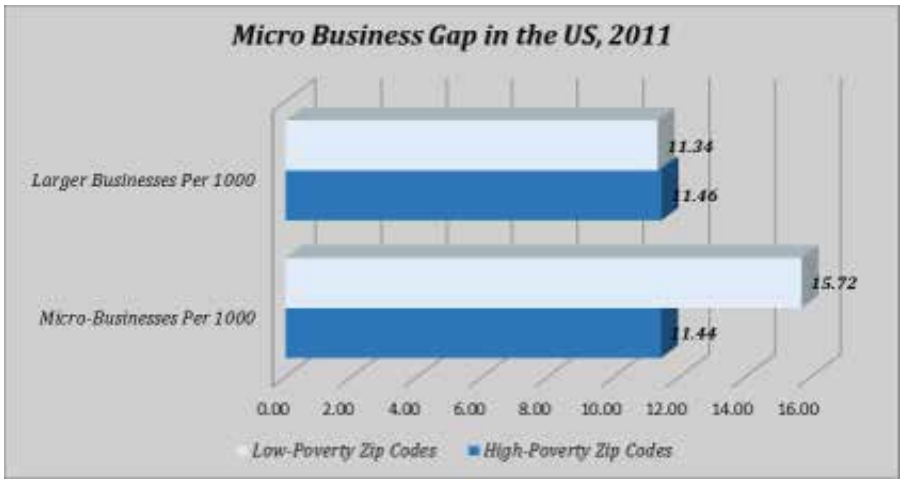
Village Capital supports mission-driven entrepreneurs around the world. Our experiential programs harness peer-to-peer support to develop business concepts.

The critical aspects of any Village Capital accelerator program involve:

- A comprehensive recruitment and selection process that targets and identifies the most promising entrepreneurs;
- A tailored program of mentorship and business skill development; and
- A guaranteed pool of investment dollars that is allocated to the top entrepreneurs at the end of each program based on the judgments of participating entrepreneurs.

Most Village Capital programs support high-growth entrepreneurs, whose companies seek to raise millions of dollars, reach tens of millions of dollars of revenue, and employ thousands of people. Yet microbusinesses comprise the vast majority of enterprises worldwide. This is why we are lending our model and our expertise to a program that seeks to support micro entrepreneurs.

Micro-entrepreneurs establish very small businesses that support themselves and their families, while collectively supplying a range of products and services, along with a sense of purpose and vitality to local economies. They also face many challenges in low-income communities.



To unlock the full economic potential of these communities, we must provide the most promising micro-entrepreneurs the business tools, network access and early-stage financing needed

to develop their businesses. Over the last two years, Social Enterprise @ Goizueta (Emory University) has worked with CDF – A Collective Action to use the Village Capital model of peer-driven enterprise acceleration to support micro-entrepreneurs in Clarkston, Georgia.

The decision to take the lessons learned from Village Capital (see sidebar) and apply them to support micro-entrepreneurs is rooted in three core beliefs.

Belief #1 – It is important to cultivate microbusinesses in low-income communities

The VilCap:Start program targets what The Aspen Institute calls microbusinesses; very small businesses requiring $50,000 or less in start-up capital and employing five or fewer people. Most people question whether it is worth spending time and effort stimulating businesses that, if successful, will only employ a few people.

However, recent data suggest that the poorest communities in the United States have serious deficits when it comes to microbusinesses. In an ongoing analysis of U.S. communities, researchers at Social Enterprise @ Goizueta calculate that in 2011, there were 11.44 microbusinesses per 1,000 people in the urban, residential zip codes with the highest rates of poverty. These are the ones where more than 19.2 percent of the people live in poverty, and where average household income is just over $48,000. In the lowest-poverty zip codes, where less than 6.9 percent of the population live in poverty, and average household income is more than $111,000, there were 15.72 microbusinesses per 1,000 people.

This suggests a rich-poor microbusiness gap of more than 27 percent! (The corresponding gap for larger businesses is virtually zero.) Imagine what will happen as we nurture the roughly 125 promising micro-entrepreneurs that are required to close the estimated rich-poor microbusiness gap within a community like Clarkston. More families will be supported by businesses located in the community; vacant buildings and office spaces will become occupied by rent-paying tenants; and outsiders will have more reasons to visit as the social and economic vibrancy of local street corners increases.

Three VilCap:Start Ventures

A good business solves problems. CRYSTAL GREEN CLEANING COMPANY (2013 program) transforms lives. We use environmentally-safe cleaning products to clean residential and commercial properties. We train and employ Refugee Families to do this work and ensure that they receive living wages, instead of minimum wages.
"The VilCap:Start program has helped me develop my business skills, and shown me how to 'keep my eyes on the prize.' I have business skills; I have a service that is generating more notoriety in the marketplace; and I have a targeted marketing plan." - Thekla Holder, Founder

GAS-ART GIFTS (2014 program), is an autographed children's bookstore and art gallery located in Decatur Georgia's North DeKalb Mall. The store offers signed kid's books, art classes for all ages, art parties, art services, stationery and artwork. GAS ART GIFTS is a resource for children, librarians, educators, historians, emerging artists, parents and the community as a whole.

"The VilCap:Start program is a reconfirmation of the idea that one only has to look for the amazing resources that are out there; not much can stop you if you have the information, a plan and connections." - R. Gregory Christie, Founder

CONNIE'S THRIFT AND MORE (2014 program) provides gently-used to new clothing to the community, as well as appliances, furniture, and selected business services. This is a locally-owned and operated business, and we are proud of our practice of hiring nearby immigrants who have chosen to re-settle in the Clarkston area.
"Since VilCap has ended, I am in a better position to purchase a valuable piece of equipment that will help grow my business. As well, I was matched with a mentor that I am able to shadow for at least one year to better myself as an entrepreneur." - Marlene McDowell, Founder

Belief #2 – There are promising micro-entrepreneurs in low-income communities

If we accept that one critical deficit within low-income communities relates to microbusinesses, then we must ask whether these communities are fertile grounds for micro-entrepreneurs. This question has been answered…at least in Clarkston.

When we launched the first VilCap:Start program, three of us made predictions about the number of applicants we might receive from micro-entrepreneurs …8…15…30?

For our first program, we received more than 60 applications! Many of these would not be described as promising, but we had enough with genuine potential to fill our first cohort of 15 entrepreneurs. For the second program in 2014, we received another 60 applications. And, our selection panels agreed that the quality of the 2014 applicant pool was noticeable higher.

(See sidebar for a brief introduction to three of the selected VilCap:Start entrepreneurs.)

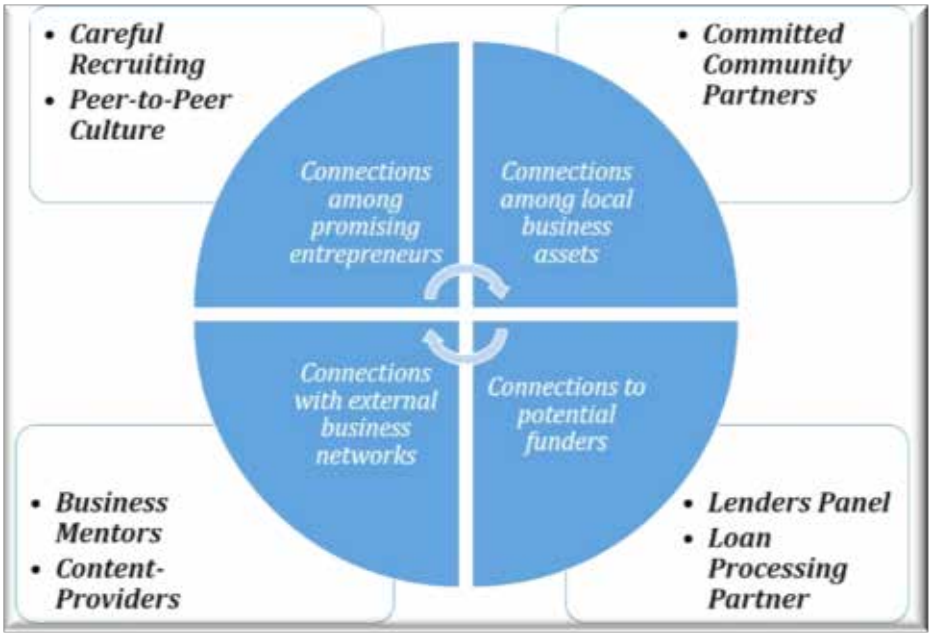
Belief #3 – We can influence the social capital that micro-entrepreneurs need to succeed

With evidence of the latent entrepreneurial potential in these low-income communities, just how do we encourage the changes that will nurture the promise within these micro-entrepreneurs?

While micro-entrepreneurs generally aspire to develop very small businesses, they still require three things that are lacking in communities without vibrant entrepreneurial ecosystems: (1) knowledge about how to run a business; (2) early-stage capital (the value of which increases significantly if funds are pre-committed); and especially (3) access to networks.

Each VilCap:Start program is designed to close the biggest gaps in business thinking. Led by a series of hand-picked content providers, our entrepreneurs work on topics like:

- ***"Understanding Customers"*** which helps each entrepreneur develop a customer-facing value proposition;
- ***"Developing Effective Business Plans"*** which helps entrepreneurs understand how to plan for customer development and resource deployment;
- ***"Developing Coherent Financial Plans"*** which allows entrepreneurs to demonstrate the economic promise of their ventures; and
- ***"Navigating Legal Issues"*** which introduces entrepreneurs to legal issues and to pro-bono sources of legal assistance.



We also ensure that there is guaranteed loan capital available to the most promising entrepreneurs. Thanks to the generosity of *VilCap:Start* program supporters, we are able to offer $30,000 in low-interest business loans to the three most promising entrepreneurs in each cohort – as selected by program peers, and not by an expert panel of lending experts.

This brings us to the key differentiator of the VilCap:Start program. We firmly believe that a root cause of the microbusiness gap is a shortage of connectivity and social capital (see figure). Indeed, the same structural impediments that stop productive economic activity from penetrating into low-income communities limit the number of productive network connections to and among micro-entrepreneurs.

One critical element of social capital relates to the connections among promising entrepreneurs. If these individuals do not have the ability to reveal themselves, then they cannot find and support one another. The VilCap:Start program recruits the best entrepreneurs and gives them a forum to connect with one another as peers. Chris Thompson, from CDF, provides a clear example of the kinds of connections that are coming out of our program: "Evidence of our catalyzing effect is found in the formation of a new local arts cooperative; three of the seven members of this cooperative's planning committee participated in the VilCap:Start program."

An expanding network of carefully-recruited content providers and business mentors encourages connections with external business networks. So far, our entrepreneurs have worked with law school students from Georgia State University and business school students from Emory University. They have talked about financial forecasting with folks from venture capital firm Gray Ghost Ventures and have worked on communications and presentation skills with a consultant from Deloitte. They also get advice and support from a diverse group of more than 30 business professionals from around Metro Atlanta. These connections are often deep and meaningful. For example, in the 2013 program, a series of conversations between one of our mentors and an entrepreneur who wanted to grow and sell flowers led to an arrangement where this new venture was incubated on farm land owned by the mentor's family.

Another important element of social capital relates to expanding connections among local business assets. Relationships with and among our community partners encourage further connections with local business resources. This serves as a catalyst for other initiatives within the community. For example, the 2014 "Running a Business in Clarkston" session inspired the creation of a series of broader Clarkston Connects networking events. These meetings are providing ongoing, year-round networking and educational opportunities for all of Clarkston's businesses. At the initial Clarkston Connects meeting, the City Manager was on hand to announce several major economic development initiatives. This meeting attracted 50 businesspeople, with almost half having had some affiliation with the *VilCap:Start* program.

A final element of social capital relates to the connections to potential funders. Clearly, it is important that we offer loans to three promising entrepreneurs from each cohort. These loans create introductions to our loan processing partner, Access to Capital for Entrepreneurs (ACE) Loans, which seed deeper connections with the established lending community. More generally, each VilCap:Start program is designed with potential lenders in mind. In a sequence of three sessions – placed at the beginning, middle and end of the program – our entrepreneurs meet and make practice presentations to experienced professionals on the Lenders Panel, which includes employees from the Georgia United Credit Union. These sessions help entrepreneurs for the road ahead as each entrepreneur needs to find the funds to match her expanding business potential.

Looking Forward…Within Clarkston and Beyond

To effectively close microbusiness gaps in low-income communities around the United States, we must continue to cultivate the localized social capital that unlocks the potential inherent in the micro-entrepreneurs that populate these often-isolated communities.

This requires a program platform that encourages, identifies and selects the most promising entrepreneurs in each community. As latent entrepreneurs become actual entrepreneurs, we will see increases in the level and effectiveness of in-community social capital.

It also requires a growing network of mentors and other business supporters. Because of the poor track record of prior entrepreneurial success in these communities, we must work to seed connections that allow for the inbound transfer of relevant business knowledge and experience. We also need the connections between entrepreneurs and mentors to serve as bridges to additional resources and opportunities. This is clearly something that our entrepreneurs are recognizing. For example, after going through the 2014 program, Greg Christie, founder of GAS-Art Gifts, "feels more confident bringing promotional ideas and community-based programs in to fruition." He now knows that "it's easier to make an idea a reality when you have resources and a rolodex, these contacts came directly from involvement in the program."

It means leveraging the network of dedicated lenders to ensure that the right amounts and types of loan capital are available to entrepreneurs who show themselves and their microbusinesses to be at the top of the distribution when it comes to real potential.

Finally, it requires all of us to recognize that real business potential is not just about growing and growing fast. We must also recognize and support the microbusinesses that produce vibrant economic and social foundations for communities; those that produce future local business leaders while ensuring that community ecosystems remain positive and productive.

About the Authors

Peter Roberts is the Academic Director of Social Enterprise @ Goizueta and Professor of Organization and Management at Emory University's Goizueta Business School. Professor Roberts founded Social Enterprise @ Goizueta after many years of conducting research on how the behavior and performance of organizations evolve over time. He has published studies on topics related to innovation and entrepreneurship; reputation, status and identity; and industry evolution in the pharmaceutical, hotel, wine and restaurant industries. For the past three years, Peter's research focus has been on social entrepreneurs, microfinance institutions, and philanthropic organizations and foundations. Before coming to Goizueta in 2003, Peter served on the faculties of Columbia University, Carnegie Mellon University, and the Australian Graduate School of Management. His Ph.D is from the University of Alberta.

Ross Baird is executive director of Village Capital. He developed the Village Capital concept in 2009, and has led the development of programs worldwide. Before launching Village Capital, he worked with First Light Ventures, a seed fund focused on impact investments. Prior to First Light, Ross worked on the development of four education-related start-up ventures: the Indian School Finance Company in Hyderabad, India, the National College Advising Corps in Chapel Hill, North Carolina, and two ventures using technology to promote civic participation. He has a MPhil from the University of Oxford, where he was a Marshall Scholar, and a BA from the University of Virginia, where he was a Truman Scholar and a Jefferson Scholar.

• POINT OF VIEW •

TRENDS IN SEED-STAGE SOCIAL ENTREPRENEURSHIP: THE IMPORTANCE OF INVESTING IN EMERGING SOCIAL ENTREPRENEURS TO BUILD FAMILY ECONOMIC SECURITY

Cheryl Dorsey, President, and Min Pease, Manager of Impact Investing, Echoing Green

Echoing Green is a nonprofit whose mission is to unleash next-generation talent to solve the world's biggest problems. Since its founding in 1987 by the leadership and investment of the leading global growth equity firm General Atlantic, Echoing Green has provided nearly 600 promising social entrepreneurs working in over 40 countries with $36 million in start-up funding, customized support services, and access to its global network. These social innovators have gone on to launch, and now lead, some of today's most important social enterprises throughout the world. Others have gone on to become leaders in a variety of sectors, having been profoundly shaped by their experiences launching social enterprises.

In 2007, we selected Felix Brandon-Lloyd as an Echoing Green Fellow. His organization, Skill-Life, was a game-based platform to help low-income young Americans overcome personal debt and lack of financial know-how. Skill-Life was acquired in 2010, and Felix recently co-founded another company, Zoobean. Zoobean, akin to a "Pandora" of children's technology applications and books, has received venture financing from Kapor Capital, Mark Cuban, and others. Felix, like all of our Fellows, is an innovative, resilient leader who is passionate about social change. He was also at the forefront of an influx of Echoing Green Fellowship applications that proposed using a for-profit business model to address social and environmental challenges.

Echoing Green has a 27-year track record of finding, selecting, and supporting successful social entrepreneurs through our Global, Black Male Achievement, and Climate Fellowships. Over the years, we have demonstrated that investing in seed stage social entrepreneurs — whether launching for-profit, nonprofit, or hybrid ventures — is crucial to bringing fresh thinking to age-old challenges. As today's generation of social entrepreneurs designs and implements innovative solutions to age-old problems, so must investors and funders energize their thinking to provide appropriate financing and capacity-building support that will help unleash the full potential of emerging leaders.

Spotting and Investing in a Trend That Is Here to Stay

Though Echoing Green has always been agnostic about the legal structure of a Fellow's organization, historically, most of our applicants proposed addressing social issues via nonprofit models. However, we are experiencing a noticeable shift in activity around for-profit and hybrid models.[1] Harvard Business School performed a

[1] *Echoing Green defines hybrid models as those that have both for- and nonprofit elements.*

trend analysis, which found that 15 percent of our applications proposed programs with a for-profit or hybrid legal structure in 2006. This year, for-profits and hybrids comprised almost half of all applications.

What we are seeing reflects the interest in entrepreneurship among young people more broadly. A recent report by the U.S. Chamber of Commerce

Foundation[2] notes that half to two-thirds of Millennials are interested in entrepreneurship, and more than a quarter (27 percent) are already self-employed. Many social entrepreneurs working on issues related to economic security have come or are coming through us because we offer high-risk seed capital and tailored capacity-building support with expectations for concessionary financial returns but also extraordinary potential for social impact. Unfortunately, this risk-taking capital and early-stage support are rare in the impact investment field, and we know that launching the next generation of talent cannot be done alone.

Last year, we launched our impact investing initiative to provide support to Fellows seeking or receiving investment and to share more of our data and knowledge around seed-stage support with the field. One approach we are taking is in response to the early-stage financing gap facing our Fellows. While nonprofit Fellows are awarded grants, for-profit Global Fellows receive recoverable grants, which are designed to be risk tolerant and inexpensive capital. These grants are designed to be entrepreneur-friendly, so if Fellows' businesses achieve certain valuation or revenue thresholds, they trigger payback. But if not, then they do not pay us back.

The Social Entrepreneurs' Fund (TSEF), which has bought the recoverable grants from us since 2011, is a separate legal entity established by impact investors aligned with Echoing Green's mission to support the growth of Fellows' organizations. It also provides follow-on impact investments to Fellows and other early-stage for-profit social entrepreneurs. TSEF and Echoing Green plan to share our learnings on seed-stage investment approaches with the field. The verdict is out: Can more early-stage impact investors like TSEF step up and give extraordinary young social entrepreneurs a chance to transform the landscape of economic security in the U.S.?

Young Leaders and Capital

Though early-stage impact capital is scarce, some business-savvy Fellows and other emerging social entrepreneurs are finding ways to cobble together funding from impact investors and grant funders alike to stay focused on their social mission. Their market-based solutions are not just taking the form of for-profits; they are also launching nonprofits with earned revenue models and hybrids. And they are achieving early success against persistent social challenges in the U.S.

It is a hopeful trend. While we are seeing that getting enough of the right type of early-stage capital is hard, we know that young people have always been at the forefront of new ideas, and capital markets are slow to catch up to new ways of thinking about risk, reward, and impact. In a recent *Harvard Business Review* blog post, my colleague Rich Leimsider says that the best social entrepreneurs are choosing a legal structure that helps them achieve their desired positive impact. At Echoing Green, we find the innovative ways that business savvy Fellows and others are thinking about addressing these problems are an important indication of how thoughtful this generation of entrepreneurs is being about its impact.

[2] *www.uschamberfoundation.org/millennial-generation-research-review*

Among many others, Echoing Green Fellow organizations working to address education, economic security, and health in the U.S. include the founders of Teach for America, City Year, Freelancer's Union, and Hot Bread Kitchen, as well as social sector leaders Van Jones and Michelle Obama.

A few notable examples of how Fellows have combined both private and social sector approaches to address challenges facing low-income families in the U.S. include:

- 2012 Global Fellow Toure McCluskey founded OkCopay, a for-profit search engine for medical procedures that helps patients find affordable medical care. At OkCopay.com, any user can quickly search for their needed medical procedure, compare local providers, and view actual prices. The service is free to customers and currently covers more than 70 medical procedures. OkCopay has over 120,000 prices documented from over 33,000 providers and is now available in 13 U.S. cites — meaning 45 million Americans now have free, upfront access to the prices of their medical care.
- 2011 Global Fellow Reid Saaris launched the Seattle, Washington-based nonprofit Equal Opportunity Schools (EOS), which partners with high schools to help identify, enroll, and support missing students in challenging college-preparatory courses, boosting their academic motivation, achievement, and likelihood of going to and graduating from college. EOS is a nonprofit with a unique earned-income model, which allows the organization to cover the costs of running current programming with the fees paid by school districts receiving their services. With this model, EOS's additional philanthropic funding is used to fund growth to various regions — enabling it to almost double its reach over the last three years.
- We have also seen Fellows who launched highly successful nonprofits transition to founding scalable for-profit organizations. For example, in 1995 we funded Aaron Lieberman for Jumpstart, a nonprofit organization that engages 4,000 college students in service to nearly 15,000 children in 20 states and the District of Columbia, in more than 75 communities across the country. In 2001, he went on to found Acelero Learning, the leading large-scale, for-profit Head Start operator in the U.S.

In addition to sharing early successes, learning from closure is equally as important. Our recent publication *Funding Social Enterprises* profiled viaCycle, a for-profit that focused on well-being by creating advanced bicycle sharing technology for large institutions like universities, cities, and corporations. viaCycle closed operations in mid-2013 because its sales cycle was long, making it difficult to compete with larger, more established firms that had more working capital. Its investors and grant funders reflected that though viaCycle closed, they remained open to working together and blending their capital in future deals, so long as the organizations stayed focused on earning revenue and executing on a business plan.

viaCycle was like many traditional for-profits, which get university, foundation, and government support along with investment. Thus, early-stage funding of social enterprises need not be a complete rethinking of capital markets, but it does require some imagination, resourcefulness, and matching the right capital to help solve the problem. Funders should choose a funding tool that helps achieve their desired positive impact. As social enterprises should not necessarily be for-profits, grant makers should not necessarily become impact investors, and vice versa — all play an important role in launching new game-changing organizations.

Looking Ahead

In June, we announced 55 new Fellows leading 42 organizations, our largest class ever. This promising group of social change leaders has already achieved early successes and has even greater potential to move the needle on the most challenging problems of our day. Our impact investing initiative is moving forward at full speed as we continue to support our growing number of entrepreneurs seeking or receiving investment, both directly via customized support and more broadly by sharing our data and knowledge as public goods within the field.

The lasting trends we are seeing — increases in for-profit fellowship applications, more young people using market-based solutions to address economic security, and a need for more flexible early-stage impact investment — require more than our resources alone to flourish. When we started the fellowship years ago, we only provided funding and then let the Fellows loose. We have learned, and this is why we have created the impact investing initiative, that it takes a social innovation ecosystem to seed real change that can address systemic problems like building family economic security. We encourage and invite others who want to move the needle to join us in investing in this important movement.

About the Authors

Cheryl Dorsey is president of Echoing Green, a pioneer in the social entrepreneurship movement. Dorsey received an Echoing Green Fellowship in 1992 to help launch The Family Van, a community-based mobile health unit in Boston. She has served in two presidential administrations as a White House Fellow and special assistant to the U.S. Secretary of Labor (1997-98); special assistant to the director of the Women's Bureau of the U.S. Labor Department (1998-99); transition team member of the Innovation and Civil Society Subgroup of the Technology, Innovation, and Government Reform Policy Working Group (2008-09); and vice chair for the President's Commission on White House Fellowships (2009-present). Dorsey received her bachelor's degree in history and science magna cum laude with highest honors from Harvard-Radcliffe Colleges, her medical degree from Harvard Medical School, and her master's in public policy from Harvard Kennedy School.

Min Pease is the manager of impact investing for Echoing Green and leads its impact investing initiative. She provides support to Fellows seeking or receiving investment and produces thought leadership to support early-stage impact investors and social entrepreneurs. Prior to Echoing Green, she worked at the Global Impact Investing Network and has also worked on economic and workforce development issues, consulted in impact investing, and received a Fulbright scholarship. She has a BA in economics from Whitman College and a MSc in development management with distinction from the London School of Economics and Political Science.

HEALTH AND WELL-BEING

IN THIS SECTION:
- Key facts on health and well-being
- Example investments
- Lessons learned

What We Know

There is a well-documented correlation between poor health and poor family finances — with the causation believed to go in both directions.

- Educational achievement is correlated with longer lifespans, improved adult health outcomes, and health-promoting behaviors.
- Good health also promotes student achievement — better physical health and health behaviors are associated with higher scores on standardized tests.
- Good health is a cornerstone of family and child well-being in its own right. The World Health Organization's definition of health as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity" embraces this view. A well-functioning health care system that supports the health and well-being of vulnerable parents and children is necessary for all families to thrive.

Impact investors, and foundations in particular, have traditionally invested in the real estate to support the building or enhancement of community health centers. However, there is a growing diversity in health-related investments. Thirteen survey respondents indicated a focus on health and primarily invest in access to health services, facilities financing, and food and nutrition.

As the number of insured consumers grows, the economics of the health field are changing. There is a shift toward considering the links between non-medical services and effects on health.

Investment Examples

- **Kresge and federally qualified health centers** (See snapshot on page 107.)
- **Revolution Foods** has proven that kids can be fed healthy food at a reasonable price. Founded by two moms, Revolution Foods has found a way to generate a profit on the "spread" between the cost of its food, which is healthy, organic, and regionally sourced, and the amount paid by the government to subsidize public school food programs. By creating jobs for local workers in regionally placed manufacturing and distribution facilities, Revolution Foods has used its impact investments to gain a foothold in the education space. It is now expanding its business to consumer products in stores to help kids eat healthy food at home as well.
- **CarePayment and affordability** (See case study on page 102.)

Lessons Learned from Investments

While recent health care reform has moved policy in the right direction, there is broad consensus that further extensive changes are necessary to improve access to and the quality of care, prevent disease, promote health, and reduce costs. Through grantmaking, other philanthropic initiatives, and now impact investing, health funders are actively addressing these challenges.

- The two key challenges for health centers are limited access to financing for facilities expansion or improvements and reduced, uncertain, and/or delayed revenues

from state government contractors and traditional grant sources. For conventional lenders, health centers are often difficult to finance, given the centers' limited and complex revenue sources and the perceived financial risks associated with the disproportionate share of low-income and uninsured people they serve. Therefore health care investors like Kresge have stepped in to fill a huge gap through the use of CDFIs. Other examples include two national intermediaries — Capital Link and NCB Capital Impact. Capital Link, a nonprofit headquartered in Boston, is raising a program-related investment (PRI) fund to finance the expansion of federally qualified health centers, so they can meet their growing patient load. NCB Capital Impact, headquartered in Arlington, Virginia, lends to health centers as well as other community development projects.

- Like CarePayment, groups are stepping in to provide safety net financing. The Colorado Health Foundation launched a $3 million loan fund in 2010 to help its safety net grantees offset delayed Medicaid payments from local government. Grantees with a stable management structure, a diverse income stream, and strong operating ratios can apply for loans between $50,000 and $300,000.

- The Ford Foundation's investments and the ongoing commitment of the Robert Wood Johnson Foundation are part of a long history of investments in health and well-being. The Ford Foundation's first PRIs 40 years ago were loans to launch nonprofit health plans: $600,000 for the Harvard Community Health Plan and $1.2 million for the New Haven Community Health Plan. The aim was to explore whether creating ways for low- to moderate-income people to prepay for health care could encourage prevention and lower overall health care costs. In 1991, the Robert Wood Johnson Foundation awarded a $5.5 million, 25-year PRI loan to establish the Community Health Facilities Fund and lent another $2.8 million in 1995. These PRIs leveraged $100 million in financing for 32 projects, helping meet an estimated $2 billion in financing needs for community-based mental health centers, including housing for adults in group homes.

Opportunities for Impact Investing in Health

At the heart of philanthropic innovation is the aim to increase impact – to more effectively solve society's problems, enrich community life, and ensure equity. Health care funders are making impact investments at the same time that health care policy makers, practitioners, and advocates are advancing their fields through practice, programs, and policy. The collective approaches seek to deliver better and more cost-effective health care for all.

To achieve this mission, health care funders focus on a number of areas:

- **Reducing disparities in access and quality of care.** As with education, health care if often inaccessible for the most marginalized; when accessed, the quality often reflects the limited resources, time, and capacity of the health care providers. Investing in access, especially for the 30 million newly insured through the Affordable Care Act, as the Kresge Foundation is doing, is a critical first step to improving the health outcomes of low-income individuals.

- **Managing the costs of care.** U.S. health care costs reached $2.5 trillion, or 17.6 percent of gross domestic product (GDP), in 2009. They are on a trajectory to exceed $4.3 trillion, or 20.3 percent of GDP, by 2018. These unsustainable levels are gutting state budgets, prompting small businesses to reduce

or discontinue health coverage (or limit hiring), and causing more than 60 percent of all household bankruptcies.[xlvii] Therefore health care investors must continue to invest in programs, practices, and policies that decrease the cost of care and provide incentives – through value-based insurance design – to individuals to partner with health care systems to improve their own conditions. They must also double down on prevention models that focus on action before a problem arises in order to preclude it, rather than treating or alleviating its consequences, which are more costly and time-consuming.

- **Invest in health systems.** Only 10 to 15 percent of preventable mortality is attributable to medical care. "A person's health and likelihood of becoming sick and dying prematurely are greatly influenced by powerful social factors such as education and income and the quality of neighborhood environments."[xlviii] Moving beyond hard assets like housing, impact investors need to engage health funders to focus on quality of housing to minimize illnesses such as asthma, access to jobs to relieve stress, and availability of healthy foods in communities. These ancillary investments will clearly have a direct impact on the health of community residents.

CASE STUDY:
CAREPAYMENT: FINANCING OUT-OF-POCKET MEDICAL DEBT WHILE KEEPING BILL COLLECTORS AT BAY

By David Bank (with Jenny Griffin), ImpactAlpha.com

Kendra is typical of many Americans covered by health insurance polices that come with high-deductibles, steep co-pays and less-than-complete coverage: deep in medical debt.

Less typical is the solution the 41-year-old Michigan mother found to start to pay off her family's hospital bills, without bill collectors, credit reports or interest.

Cash payments from patients are a growing part of the health care financing system even as more people are obtaining health insurance, under the Affordable Care Act, through their employers or on their own. To actually use many of the new policies to access health care services, patients incur hefty cash charges for deductibles, co-payments and other fees that they often are not prepared to pay.

Even for middle-class families with regular income, medical debts of $5,000 to more than $15,000 can mean a downward slide of damaged credit, missed rent or mortgage payments and, often, bankruptcy.

Kendra, who asked that her last name not be used, has supported her family of four on her social worker's salary since her husband, a veteran, became disabled. To save money on health insurance premiums last year, she accepted a $5,000 deductible, along with $50 co-pays for each doctor's visit, on her family's insurance plan, gambling the family would stay healthy.

That turned out to be a bad bet. Within months, Kendra suffered an ocular stroke. Her liver problems flared up. Her daughter developed thyroid troubles. Co-pays for neurologists, eye doctors, and other specialists, along with MRIs and other tests, came out of her pocket. One ultrasound cost $1,400. Her hospital bills alone grew to more than $3,500. Kendra called Mercy Health's Lakeshore Hospital in nearby Shelby, Michigan, to try keep the bills from going to a collection agency.

"I just can't keep up with the bills at all," she says. "It's not something we ever thought we'd have to face, but we just can't keep up. That's just how it is. I can't jeopardize our house for medical testing."

Kendra was given an account with CarePayment, a health care financing company based in Lake Oswego, Oregon, near Portland. CarePayment has contracted with Mercy Health and other health care providers representing more than 400 hospital facilities and physician clinics to manage cash accounts receivable.

Through its website, CarePayment welcomed Kendra with a pre-approved, zero-percent APR revolving credit line, spreading her payments over 25 months. Now, Kendra pays $79 a month, a bit more when she is able. "I wanted the hospital to get paid," she says. "I would never want to not pay."

DEBT BURDEN

Because most of the lowest-income patients qualify for Medicaid or charity care, out-of-pocket medical costs can be an even bigger burden for lower-middle- and middle-class families, even those with insurance. Out-of-pocket expenses on essential medical procedures climbed 38 percent from 2012 to 2013. Total out-of-pocket health care expenses are predicted to surpass $400 billion by 2016, according to the Kaiser Family Foundation.

Expanded insurance coverage under the Affordable Care Act may actually contribute to the problem of out-of-pocket medical debt. The lowest-premium "bronze" level plans available through the state and federal insurance exchanges generally cover about 60 percent of health care costs. Deductibles can run to $5,000 for an individual plan and more than $10,000 for a family plan.

One in three American families delayed medical treatment this year because of concerns about cost, according to a recent Gallup poll, which showed that delays in seeking care were rising fastest among those with insurance. In a 2012 survey, more than 40 percent of adults reported some level of medical bill problems in the previous 12 months. That put them at risk for lost savings, foregone food, unpaid rent or utility payments, rising credit card debt and personal bankruptcy. Approximately 60 percent of all personal bankruptcies are related to medical debt, according to a 2007 national survey.

Unpaid bills represent a major problem for hospitals and other healthcare providers as well. Hospitals write off an estimated $50 billion in uncompensated care each year, or more than 6 percent of their total costs according to the American Hospital Association. The hospitals have traditionally had two choices: write the bills off as charity care, or pass them to bill collectors.

Traditional debt collection can trap patients in a downward spiral, and generally don't serve hospital well, either. Patients suffer damage not only to their credit rating, but also to their health, as they forego continuing care to avoid running up even larger bills. Heavy-handed collection efforts treat patients as deadbeats rather than valued customers. Hospitals typically receive less than 20 cents on the dollar for the accounts-receivable.

CarePayment executives say a patient-friendly approach is simply better business, generating higher payments from patients and safeguarding hospitals' community relations. CarePayment aims to give patients a way to manage their medical debt without interest or penalties and does not refer unpaid bills to collection agencies nor report missed payments to credit-reporting agencies. The company says a recent customer survey found high levels of satisfaction with the services and that customers are more satisfied with their healthcare providers as well.

"The first thing we send you is a welcome kit, not a bill," says Craig Froude, who served as CEO of CarePayment until moving up to a position with its parent company, Aequitas, a private equity firm

that launched CarePayment in 2004. "We say, 'Here's a revolving line of credit, preapproved.' That's a very different message from, 'Write us a $2,500 check.'"

As for hospitals, Froude says, "They have struggled to collect from patients."

CarePayment frames its function as an outsourced customer-service provider, not a bill collector. CarePayment offers healthcare providers increased revenues, improved patient satisfaction and community relations, as well as a better deal than that offered by traditional bill collectors. Many of the hospitals are nonprofits or religiously affiliated. CarePayment sought to offer them a way to focus on health care, not billing.

CarePayment purchases the accounts receivable of patients it deems most likely to repay, based on its proprietary risk-scoring algorithm. CarePayment is non-discriminatory, offering all patients the same zero-interest, revolving-credit account and online account-management services, even for patients whose accounts it does not directly purchase. As patients demonstrate a propensity to pay, CarePayment will purchase the remaining balance from the provider. CarePayment funds its program by purchasing the accounts-receivable at a discount to their stated balance.

CarePayment says its methods more than double collections at the point of service net of the purchasing discount and increase them by about 50 percent even after 60 days, enhancing hospitals' financial performance, lowering bad debt and providing upfront capital.

By boosting collections from below 20 percent to around 50 percent of the billed costs, CarePayment can provide hospitals with higher revenues at the same time patient accounts are subsidized with zero-percent financing. Unlike a bill collector, CarePayment does not report to credit-ratings agencies. CarePayment closes and returns unpaid patient accounts to the healthcare provider, who may later engage a collection agency.

CarePayment has signed up more than 400 facilities from single-hospital and multi-facility health systems along with specialty physician groups and other service providers, primarily in the Midwest, Southeast and Northeast. It has processed more than $890 million in outstanding hospital bills from more than 1.5 million patient accounts.

In South Bend, Indiana, CarePayment has helped Beacon Health reduce the amount going to bad debt or collection at each of its two hospitals by at least $1 million. "We just auto-enroll the patients in the program and spread the payment out over 25 months," says Beacon's Chief Financial Officer, Jeff Costello.

Key to CarePayment's results is enrolling customers in an affordable payment plan as early as possible, when the medical services received are still top of mind and desire to pay is highest. The company says it could be hurt by pending federal consumer-protection regulations that would prohibit hospitals from selling accounts receivable for at least 90 days. The company is working with a lobbyist in Washington DC to emphasize the differences in CarePayment's approach from debt collectors, and to modify or seek an exemption from proposed rules directed at that industry.

"We found that people wanted to pay the bills, but when faced with something like a $3,000 bill from the hospital, it was so daunting that it was overwhelming for them. It could just get lost in the shuffle," says Ellen Bristol, a spokeswoman for Metro Health in Grand Rapids, Michigan. "When we gave them the opportunity to pay over time, they really wanted to do that."

STRATEGIC FIT

Cash hospital billings is just the kind of neglected financing niche that Aequitas, CarePayment's parent company, looks for. With more than $500 million under management, Aequitas is a creditor in

subprime motorcycle loans, student loans, small business loans, and other areas commonly dismissed as "distressed debt."

"We get involved in things the banking sector doesn't fund," says Brian Oliver, executive vice president of Aequitas. "These are niche, dislocated opportunities where the conventional banking industry won't provide the funding because of the profile of the customer."

Impact investors were attracted to CarePayment's combination of social impact and steady payments. CarePayment financed its purchase of accounts-receivable with private-placements from individual accredited investors and institutions such as the W.K. Kellogg Foundation, which placed $3 million in 2011 as a fixed-income part of its $100 million mission-driven investing portfolio. Imprint Capital, an impact investment advisory firm that works closely with the Kellogg Foundation, also helped bring in a half-dozen or so other foundations and family offices.

Particularly appealing to the investors was CarePayment's annual return. In CarePayment's model, the payments were backed by the credit-worthiness of the contracted hospitals, not individual patients themselves, mitigating some of the risks of the new approach.

"From a risk-reward standpoint, that was attractive, and from a social impact standpoint, we thought it could scale," says John Duong, a program and portfolio officer on the Kellogg Foundation's investment team. "Patients get access to capital, hospitals get reimbursement, and we make a good return."

Additionally attractive were CarePayment's partnerships with hospitals in Michigan – the foundation's home state and a strategic priority. Michigan represented as much as 25 percent of CarePayment's revenues.

Though CarePayment's services are not generally targeted to the poorest segment of the population that the Kellogg Foundation seeks to serve, medical debt threatened to sink many middle-class families into poverty. The foundation seeks to serve families at or below 200 percent of the federal poverty line. CarePayment says that confidentiality requirements and other considerations have prevented it from collecting a full socioeconomic profile of its customer base. With CarePayment's cooperation, the Kellogg Foundation has commissioned a survey to explore the issue for policy purposes.

"For those at 300 or 400 percent of the federal poverty level, and you owe $800 or $2,500 — that's more than you can pay out in lump sum," says Julie Solomon, one of the principal researchers conducting the study. "For certain amounts of debt in relation to people's income, being able to pay it off a little bit at a time, with no interest, without it going to collection, that really helps people out."

Inside the Kellogg Foundation, the investment spurred a debate about broader health care policy. CarePayment's solution helped reduce many of the negative consequences of medical debt, but some members of the foundation's investment committee became uncomfortable with a business model that depends on collecting additional revenues from individual patients.

"What we were doing is helping a subset of folks who are working poor and have these expenses to repay them, and to get better medical outcomes in the process," says Tony Berkley, who led the Foundation's mission-driven investment initiative at the time of the CarePayment investment. "It was, 'Here's an inefficiency. Patients are better off. Hospitals are better off.'"

Still, some at the foundation were concerned about the perception of "making a profit off of debt," says Berkley. "That position is difficult for some folks who come from a charitable mindset."

By 2013, CarePayment had become able to expand its services without the need for "impact" investors. By leveraging its receivables with secondary financing from Goldman Sachs, it attracted lower-cost financing from more traditional lenders, including a $60 million line of credit from Bank of America.

"Access to affordable health care is a pressing public concern that CarePayment has addressed successfully for years," said Roger Hinshaw, who heads Bank of America Merrill Lynch in Oregon and southwest Washington.

This access to institutional capital meant early investors would receive a lower return. That, coupled with a change in the way CarePayment financed the purchase of the accounts receivable to accommodate the requirements of these senior lenders, raised additional concerns for the Kellogg Foundation. Under the new structure, medical accounts-receivables might be combined with college loans, which Kellogg had made a policy decision to avoid.

When Aequitas refinanced its line of credit last year, the Foundation elected not to participate in the new fund and redeemed its investment last year.

In the end, the early capital from the Kellogg Foundation and other impact investors played a catalytic role in launching an innovative approach to a growing social challenge. The early risk capital supported a new model to the point where its results enabled it to access more traditional forms of financing. CarePayment executives acknowledge the company might not be where it is today without support from institutions such as the Kellogg Foundation.

At the same time, CarePayment illustrated the distinction between impact investing and philanthropy. Through grants, a foundation might undertake policy efforts to reform health care more broadly to reduce the total financial burden on struggling families.

The impact investors who placed capital with CarePayment were making a different calculation. CarePayment had identified a market failure and a win-win solution to overcome it, helping moderate- and lower-income families straining to pay medical costs not covered by insurance. Impact investors had to weigh whether the investment provided an appropriate risk-adjusted return while making a positive impact on a growing social challenge.

For Kendra, the Michigan mother, CarePayment's service is a step in the right direction. She makes extra payments when she can. But she remains anxious about her continuing exposure to medical debt.

"The thing that's scary is that we're relatively healthy people," she says. Her 11-year-old boy is active in football, basketball, and tae kwon do. "I'm terrified we're going to end up with a broken bone at some point. One emergency room visit, and we're done."

DEALS AT A GLANCE: THE KRESGE FOUNDATION

HEADQUARTERS
Troy, Michigan

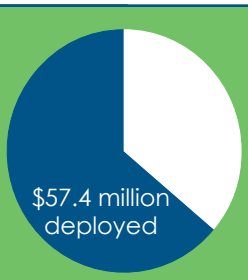
LEADERSHIP
Rip Rapson, President and CEO

SOCIAL INVESTMENT PRACTICE TEAM
- Kimberlee Cornett, Managing Director
- Kim Dempsey, Deputy Director
- Joe Evans, Portfolio Manager

SOCIAL INVESTMENT PORTFOLIO INCEPTION: 2007

GEOGRAPHIC FOCUS: United States, Detroit

INVESTMENT TYPES
- MRIs - co-investments with existing managers
- PRIs - guarantees, cash and cash equivalents, subordinated loans, equity



TOTAL CAPITAL COMMITTED TO IMPACT INVESTMENTS
$90 million (2014 proj.)

NUMBER OF INVESTMENTS MADE: 49 since inception

ISSUE FOCUS
arts and culture, education, environment, health, human services, and community development efforts in Detroit

INVESTMENTS MADE
arts and culture (1); community development/Detroit (9); environment (2); health (8); human services (26)

WEBSITE: www.kresge.org

The Kresge Foundation is a $3.5 billion private, national foundation that works to expand opportunities in America's cities through grantmaking and investing in arts and culture, education, environment, health, human services and community development efforts in Detroit. In 2007, driven by support from its board of directors, the Kresge Foundation launched its first series of social investments. At the core of Kresge's social investment practice is the belief that using non-grant forms of capital is part of the solution set that allows Kresge to be effective on any of the complex issues central to its mission. In 2010, the foundation hired dedicated staff, and since then, the social investment practice has evolved from an exploratory effort to an established and integrated strategy that allows Kresge to leverage its assets and intervene in places not well served by the private financial sector.

The Kresge Foundation will have committed $90 million in investment capital at year end 2014 which include a combination of loans, equity and guarantees. The foundation has 33 currrent investments with capital commited and deployed equaling $60 million. This complements the approximately $128 million in grants paid to grantees in 2013. Kresge has deployed investments across its impact areas but has predominantly focused in the areas of health and human services. Kresge's leadership in the field has yielded important lessons and has attracted the interest of other investors, on-the-ground innovators, and policy makers.

The Future/Ultimate Goal: Working Toward a Community-Centered Health System

Over the last few years, Kresge's Health program has evolved to meet the opportunities made open by the Affordable Care Act (ACA), to transform the health care system from one that is primarily focused on delivering services/treatment to one that is focused on population health: a community-centered, upstream-oriented system.

As a leading grantmaker for more than 90 years, Kresge has an established network of healthcare providers, health departments, policy makers, and knowledgeable staff with strong relationships in communities across the country. Building on this history and knowledge, Kresge complements its grantmaking with social investments help reach its goal to reduce health disparities by promoting population health, specifically working to address the social and environmental issues that affect the health of low-income people.

Market Opportunity: Federally Qualified Health Centers

A **Federally Qualified Health Center** (FHQC) has been designated by the U.S. Department of Health and Human Services as eligible to receive grants under Section 330 of the Public Health Service Act. To qualify, the health centers must serve underserved populations, have a governing board of directors, offer a sliding fee scale, and have an ongoing quality assurance program. In 2013, the National Association of Community Health Centers reported over 9,000 locations serving more than 22 million patients.

Kresge quickly identified accelerating the rate of investment in Federally Qualified Health Centers (FQHCs) and strengthening their linkages to CDFIs as a critical path to connecting health care with community development. The space was well suited for its investment capital for the following reasons:

- **Patient demand:** As a result of healthcare expansion, there are an expected 30 million new patients that need to be accommodated. There was a great desire from the field to build out the FQHC system to accommodate the growth of low-income patients who seek care at FQHCs.
- **Predictable revenue source:** Although capital improvements/expansions for FQHCs have historically been funded with grants, the revenue FQHCs earn via Medicaid and Medicare reimbursements, insurance and direct patient revenue can be underwritten by lenders.
- **Capital availability:** Community development finance institutions work in the same communities as FQHCs and have complementary goals. However, Kresge found only one CDFI actively lending to FQHCs and with deep understanding of the business model of health centers.

Taking these factors in to account, Kresge identified the opportunity to serve as a broker, of sorts, to match CDFIs with FQHCs and provide the CDFIs with capital to help them get into the business of investing in FQHCs. The foundation also provided grant support to develop an innovative capacity building program developed by the Wisconsin and Indiana Primary Care Associations that targeted the operating, financial, and efficiency metrics of health centers.

FIGURE 1: APPROACH DEVELOPED FROM NATIONAL SUMMIT ON COMMUNITY HEALTH CENTER LENDING & INNOVATION

Approach/Solution:

In addition to a first series of investments, Kresge and Capital Impact, a CDFI, hosted the National Summit for Health Center Lending and Innovation — a first of its kind gathering of leaders across sectors.

Subsequently, Kresge developed an investment framework (see figure 1 below) that illustrates the need for a multi-dimensional strategy that moved beyond investing solely in real estate and added investments that directly influence care. This framework fosters health equity through investments that strengthen the primary-care safety net, improve community health systems, and address the social determinants of health.

Below are a few examples of investments made within this framework. Typically, the Kresge Foundation's investments are:

- Delivered via an intermediary (such as CDFI);
- Paired with grant capital; and
- Structured to leverage capital from other sources, including financial institutions, private investors, other foundations, donors and government agencies.

For a majority of investments, the foundation negotiates a term sheet, then seeks approval from an internal investment committee. Typically, these term sheets feature exception policies for substandard investments.

BUILDING THE BOX	INSIDE THE BOX	OUTSIDE THE BOX
The availability of financing for the development of new and the renovation of older health center facilities. (This includes CDFI lending and development expertise.)	Impact the delivery of care by improving management and financial operations, data, the quality of consumer care and experience, and the breadth of services available to consumers.	The social determinants of health, public health policy, linkages between health and community development.
Investee: Healthy Futures Fund, a $100 million fund for affordable housing with health services with Low Income Housing Tax Credits and community health centers with New Markets Tax Credits. (2012) **Structure:** $6 million investment **Expected social returns:** The construction of 500 affordable housing units with integrated health services, as well as eight federally qualified health centers that will serve an estimated 75,000 people. Increased collaboration and coordination of housing and health care providers in low-income communities.	**Investee:** Snapshot Dermatology is an online telemedicine company that provides patient's access to dermatologists in health centers where specialty care is not available. Snapshot currently is working in 66 health centers serving low-income patients. **Structure:** $500,000 convertible debt **Expected social returns:** Expansion of telemedicine services to health centers and other safety net providers; increased access for low-income patients to specialty services.	**Investee:** Colorado Coalition for the Homeless, owner and operator of both health services and housing for vulnerable families in Denver and Colorado at large. (2013) **Structure:** $3 million enterprise-level investment, interest rate directly tied to improvements in ten pre-set health metrics. Based on the achievement certain benchmarks, the organization could, over time, buy down the loan from 4 percent to 1 percent. **Expected social returns:** Increased access for CCH's population to health services before Medicaid expansion was fully implemented and experimentation with an alternate pay for results model.

If we don't take this time to drive housing and health care into what Medicaid will pay for, if we don't link housers to hospitals to drive down readmissions, if we don't figure out how to go past SIBs and go to pay for evidence types of schemes, we're going to miss the moment.

- Kimberlee Cornett, Managing Director, Social Investment Practice, the Kresge Foundation

Lessons-Learned/What the Field Needs to Know

Move Community Development Past the Real Estate

Community development has to move beyond its traditional habits of investing in real estate and become comfortable with financing deals without hard collateral. Investors should learn how to underwrite different kinds of revenue and risk types in order to increase capacity and knowledge and incorporate social impact measures such as improvements in health outcomes.

Kresge's contribution to this effort involves working with banks and community development finance institutions to pull together large transactions and to form a lender's coalition that is working with the government to help redesign the FQHC program for increased effectiveness.

Leverage Data to Build New Solutions

Health care providers work with large amounts of data and technology, presenting innovative opportunities to partner with the private sector to provide needed goods and services. For example, Kresge recently partnered with the California Healthcare Foundation on a $5 million Partnering for Impact Fund. The venture fund capitalized seed stage companies that offered a product, technology, or service relevant for health centers or health center patients. The selected companies had to meet one or more of three goals: expand access to 100,000 new patients who have previously not been served, achieve $25 million in Medicare savings annually, and increase health center through put by 20 percent.

The continued growth and changing dynamic of the healthcare sector will only increase the demand and interest in solutions found through entrepreneurial efforts. This demand is matched by the demand for capital from seed-stage companies. Within the first 30 days alone, the Partnering for Impact Fund received 120 applications.

Connect Health and Supportive Investments (Shift in Mindset)

Kresge has increasingly focused on the social determinants of health, an approach that has helped articulate related risk-factors for low-income communities and merges the community development and health agendas for the investment team. In particular, the team has worked to connect efforts around housing and health — a link that has become increasingly important in the past few years.

Stable housing is key to maintaining health, and healthcare providers are starting to see more opportunities to partner with housing providers. The business case is clear for housing providers who often struggle to get tax credits and would benefit from potential revenue from Medicaid. Meanwhile, healthcare providers work to be good partners with housing providers in order to avoid penalizations for readmissions.

Conclusion: Seizing the Moment

At a very important moment in time, new business economics for hospitals are emerging. A larger number of consumers in the market have coverage, and Medicaid is beginning to consider how non-medical services, such as housing and support services, are integral to health care. As the infrastructure around these trends continue to build, it will be important to have resources that map and connect vital issues and services that help the most vulnerable populations.

• POINT OF VIEW •

BRIDGING THAT CRITICAL SPACE BETWEEN HEART AND HEAD

Ron Cordes, Co-Founder, Cordes Foundation

By the time Ron and Marty Cordes set up the Cordes Foundation in 2006, Ron had long ago mastered the "head" part of investing. He had just sold AssetMark Investment Services, a $9-billion-in-assets company he co-founded, and he had worked in investments for over quarter of a century. But, with the Cordes Foundation, Ron and Marty would be following the dictates of their heart—hoping to make the world a better place for girls and women while improving economic opportunity and financial inclusion.

The Cordes discovered that impact investing was the bridge to span that space between heart and head—to make investments that help create a better world but also earn a return that is within the parameters of the foundation's traditional investments and enables the foundation to keep operating. The Cordes Foundation now invests up to 40 percent of its endowment in impact investing and is part of a small group of foundations that has committed to reaching 100 percent impact investing.

Although both sides of the equations (social impact and financial return on investment) must be met when considering which opportunities to pursue, Ron says that "90 percent of the opportunities we turn down are for financial—not impact—reasons."

Ron Cordes has heard people say that even if an impact investment loses money, it still will have a positive impact on the ground and this social return alone makes the investment worthwhile. His response: "When you think it's okay that an impact investment loses money because it's going to a great cause, you are doing a huge disservice to yourself and to the field of impact investing. If it makes sense as a mission but is shaky as an investment, you can explore supporting the project with grants. But we're not going to take a flyer on an investment that doesn't meet our level of rigor as an investment."

Mastering the heart-head dynamic has made Ron Cordes a leader in helping people understand what impact investing is, how it works, and why it can change worlds (philanthropic and global) if it is pursued the right way.

After launching their family foundation, Ron and Marty Cordes got into impact investing out of frustration.

With our foundation, we were exploring ways to have impact and to punch above our weight, and we were frustrated with the advice we were receiving around giving away 5 or 6 percent a year. Using the IRS 5 percent minimum of the endowment for mission while investing the other 95 percent in ways that might or might not further mission is the way foundations have operated since the philanthropic titans

of the 19th century. For larger, more traditional foundations, it is as if the grants and programs department lives on the 17th floor and the investment department works on the 18th floor, and they are served by two separate banks of elevators so they never even see each other coming and going. We had the advantage of having a small team and we could easily look across both sides and see how our grants informed our investments and vice versa.

When the Cordes Foundation went looking for impact investment opportunities in 2007, it was tough to find them. That has changed over the past several years — in large part due to work that people like Ron Cordes have done.

One reason impact investment opportunities are becoming easier to identify is that a number of initiatives have created extensive data bases. The Global Impact Investing Network (GIIN), for example, was funded by many foundations and is in effect a trade association for impart investors. GIIN is dedicated to increasing the scale and effectiveness of impact investing.

ImpactAssets is a nonprofit financial services company that we cofounded with the Calvert Foundation. In 2011, we put out ImpactAssets 50, an annually updated list of private debt and equity fund managers. It is a formal database of the largest, most relevant impact investment managers — a gateway into the world of impact investing for investors and their financial advisors. ImpactAssets 50 is a place where investors and financial advisors can access funds and fund managers in ways that might end up driving capital. It is a free service to holders of wealth.

And then there are the impact investment opportunities offered by large investment firms like Morgan Stanley, Merrill Lynch, Wells Fargo, and UBS. These big four are all involved in their own discrete platforms for impact investing. They have thousands and thousands of financial advisors who offer products to choose from — keeping in mind, of course, that each company's advisors offer only company-approved products.

There are two great things about these big investment firms getting into impact investing. First, it is wonderful that this came from internal demand, from clients asking their investment advisors how to make impact investments. And then the advisors turned to their companies and asked, How can we make this happen because we have a need for it? The second positive thing is that the large companies doing this, sets the stage for thousands of smaller firms to follow in the same direction.

Is it true, then, that regardless of your mission, you can find an impact investment that fits?

If you are applying your mission nationally or globally, it is likely you will find impact investment opportunities, yes. Fueled by our commitment to a gender lens, we've made several investments in microfinance, most specifically in the Women's World Banking ISIS Fund, which invests in microfinance institutions both primarily serving and governed by women.

What is still challenging is when you contract the geography in which you want to work. Even so, consultants are out there who design bespoke investments for place-based missions.

Ron Cordes dispels a misconception that still plagues discussions about impact investments — that they are inherently risky.

J.P. Morgan looked at portfolios of large impact investors like Calvert and the F.B. Heron Foundation and found that impact investing has achieved returns consistent with other types of investments and is not riskier.

Neither is impact investing all about early-stage investments, which are inherently risky. You construct your impact investments as you would any prudent investment, with a range of risk. We have 40 percent of our funds invested directly for impact and those investments range from secure loan funds, which are all the way on the safe side, to the most speculative early-stage investments that are on the other side of the scale.

With 30 years as a professional investor, I know there are a million ways to quantify risk and an array of software to help you do it. But in truth it is more art than science. One thing you can count on, however, is that unfamiliar investments are considered inherently riskier than familiar ones. The impact investing field has been unfamiliar to many advisors. So has some of the geography where the field operates. This unfamiliarity has caused investors and advisors to tread slowly and to perceive impact investing as riskier.

The Cordes Foundation had its own real-world test of impact investing risk.

We started our impact investing in 2007 and then in 2008 the investment world collapsed and by the time Lehman Brothers, Bear Stearns, and AIG collapsed, I had real questions how our portfolio of impact investments would do. But when we marked everything to market at the end of 2008, we found that our impact investments were largely uncorrelated to the global financial meltdown. We had made investments in micro-financing and small businesses around the world and it was as if those small borrowers — around 70 percent women — had not heard of the subprime crisis. Everything got paid back. Far from being our worst investments, they turned out to be our best ones.

Investment advisors — once the gatekeepers who kept the gates closed to impact investments — are increasingly becoming champions of impact investing.

Yes, advisors have kept the gates closed to impact investing in the past — for a variety of reasons. Lack of track record for impact investments. Concern about risk, especially after the 2008 collapse. And unfamiliarity, which I have already mentioned. But over the past two years, financial advisors have seen their clients coming to them for advice on impact investing and the smart ones have concluded this is where I have to go, not only to serve current clients but to attract new ones. AssetMark, the firm I built, now serves 6,000 investment advisors, and they are leading in this area. As more firms of scale get involved, the industry will move forward.

For the millennial generation, impact investing is a natural evolution from the way they have lived their entire lives — wanting to understand the moral context for everything from the products they buy to the philanthropic work they do.

Our daughter Stephanie is a millennial and she recently made a life-changing decision to work with our family foundation full time. We always expected her to be involved at her own pace but when she began reviewing grants and saw the work we were doing, she said, "This is what I want to do."

Now we have Stephanie and two other millennials who are helping run the foundation, and this involvement is typical of what we are seeing in the field of impact investing — on the investor and investee side both. We do a lot of work

with social entrepreneurship and support groundbreaking work created by young people, most of them 35 and under. We are also working with young wealth holders who are making all the difference in the world.

These individuals — on both sides of the investments — are giving permission to others in their generation to have conversations about how we invest in the world around us and across the globe.

About the Author

A veteran of more than 30 years in the investment industry, Cordes co-founded AssetMark Investment Services and is currently Executive Co-chairman of AssetMark with more than $25 billion of assets under management. Cordes is co-author of "The Art of Investing & Portfolio Management" and was recognized as an Ernst & Young Entrepreneur of the Year in 2005.

Cordes co-founded the Cordes Foundation with his wife, Marty, with the goal of advancing market-based solutions that address the world's most challenging problems. Cordes speaks extensively on impact investing and achieving meaning and purpose in an encore career, and has been profiled in multiple publications including Fast Company, Forbes, Financial Advisor, Financial Planning and Private Wealth Management.

Cordes chairs the Executive Committee for ImpactAssets, a nonprofit financial services company launched in 2010, and is also co-chair of the Opportunity Collaboration. In addition, Cordes also serves on the Advisory Committee for the Clinton Global Initiative, and as a board member of the U.S. Global Leadership Coalition, Fair Trade USA and MicroVest Holdings.

• POINT OF VIEW •

INSIGHTS FROM ABROAD: IMPACT INVESTING IN EMERGING MARKETS

Randall Kempner, Executive Director, and Alexander Pan, Program Coordinator, Aspen Network of Development Entrepreneurs

The Aspen Network of Development Entrepreneurs (ANDE), a policy program of the Aspen Institute, is a global network of organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, we believe that SGBs can help lift countries out of poverty.

Members of ANDE include both for-profit and nonprofit investment funds, capacity development providers, research and academic institutions, development finance institutions, and corporations from around the world. Launched with 34 members in 2009, ANDE now comprises over 200 members who collectively operate in more than 150 countries.

From our perspective at ANDE, we have seen impact investing become an increasingly important tool used to support small and growing businesses in the developing world that are capable of creating jobs, stimulating long-term economic growth, and generating social impact. However, impact investing is still very much an emerging tool. If it is to scale and become a viable solution to social issues in the United States, there are several key lessons from the international context that the industry should consider.

To start, it is important to note that impact investing actually makes up a very small portion of the approximately $80 trillion dollars in assets under management globally. At $46 billion, impact investing comes to about 0.06 percent of total assets under management.[1] And the total in deals completed is only $9 billion, or roughly 1/100th of 1 percent of the total.

So impact investing still clearly has a lot of room to grow, but let us not be overly negative: $9 billion in investments dedicated to social impact is still a considerable sum of capital and indicates the burgeoning interest in this sector. Moreover, with at least $35 billion in impact capital waiting to be invested, the sector is poised for launch.[2]

[1] *J.P. Morgan & Global Impact Investing Network. (2014). Spotlight on the Market: The Impact Investor Survey. New York: J.P. Morgan.This figure likely represents a vast majority of impact capital; it is not intended to be a comprehensive figure and likely undercounts the true amount of impact capital.*

[2] *Ibid.*

But for the moment, there are not enough good deals, at least in emerging markets. While there are many investors in this space, the first thing they generally complain about is the lack of investment-ready opportunities. Conversely, entrepreneurs complain that they have trouble connecting with impact investors and that these investors are not willing to take enough risks. This results in a large number of stagnating social businesses. Bridging this gap between investors and entrepreneurs is absolutely essential if impact investing is going to succeed in any part of the world. So, it is worth exploring why this gap exists in the first place.

The Two Talent Gaps

The first issue is human capital. As almost any venture investment professional will tell you, the most important thing they look for in an opportunity is the quality of the entrepreneur and his or her management team. However, in the emerging market context, investors often find that management teams lack the necessary business skills and training.

To address this issue, a range of capacity development providers have emerged, including numerous incubators and accelerators, that aim to augment the business skills and general capacity of an enterprise. While ANDE believes in the potential of these organizations, most are start-ups themselves with little track record. There is a clear lack of understanding of best practices in business incubation, even in the developed world. ANDE is working to better understand the impact of acceleration and establish an understanding of what works and what does not through its research initiative.[1]

While there is still much more research to be done, there are two salient findings from our initial research. The first is that an incubator's selectivity matters: Incubators with lower acceptance rates have a higher proportion of successful graduates. In addition to the obvious logic that better firms in lead to better firms out, there seems to be added value in having interaction and "cross-fertilization" of ideas and contacts with higher quality participants. The second is that an incubator's ability to develop partnerships with locally based commercial investors is a key determinant of success. For many accelerator graduates, the next step in financing may not come from impact investors, but rather from local commercial investors who have a strategic interest in the impact objective of the incubator's graduates. By engaging these potential investors, incubators can greatly increase their likelihood of obtaining funding for their graduates.[2]

In addition to the lack of talent on the venture side of the equation, there is a talent shortage on the investment side as well. Many limited partners complain that they cannot recruit or retain skilled fund management teams. This is not entirely surprising, as the impact investment industry is still rather new, and investment managers with extensive impact investing experience are nearly nonexistent. The talent shortage is further exacerbated in emerging markets, where the indigenous talent pool of well-trained investment managers tends to migrate to global financial capitals such as London or New York. This indigenous talent, however, is critically important to facilitating deals, as natives tend to have a much more nuanced understanding of the local context, have more extensive networks in the local impact investing ecosystem, and can more easily develop a good rapport with the investees.

[1] *In addition to publishing the report Bridging the Pioneer Gap, ANDE is currently collaborating with Emory University and Village Capital to build a robust and holistic database of incubators and their clients to assess performance.*
[2] *Lall, S., Baird, R., & Bowles, L. (2013). Bridging the "Pioneer Gap": The Role of Accelerators in Launching High-Impcat Enterprises. Washington, DC: the Aspen Network of Development Entrepreneurs.*

Without this indigenous investment management skill, the cost of conducting due diligence can skyrocket and the ability to understand a potential investment's position in the local context is impaired. While this problem is particularly acute in emerging markets, the importance of locally rooted investment teams should not be overlooked in the Global North.

Managing Investor Expectations on Both Ends of the Impact Spectrum

Despite impact investing's promise of social impact without a reduction in financial returns, for the vast majority of impact investing deals, there is still a trade-off between social and financial impact. This reflects both the higher cost structure associated with managing impact investing funds and the fact that the industry is still nascent. But expectations need to be realistic to avoid disappointment and bubbles.

Managing expectations should not be hard for the large number of impact investors driven by philanthropic goals. For grant-making institutions, the potential to create modest financial returns while seeding organizations with sustainable, scalable impact should be attractive. On the other side of the spectrum, for those with a financial-first perspective who have expectations for fully risk-adjusted returns, this reality is harder to swallow.

However, in the context of developed financial markets like the U.S. and Western Europe, there may be increasing opportunities to hit financial return goals. New tools like social impact bonds (SIBs) offer returns that are competitive with traditional investment returns. In New York's 2012 prisoner rehabilitation SIB, Goldman Sachs was the major buyer, demonstrating that large finance-first commercial investors can play a major role.

Investment Structure

To date, a majority of impact investors have utilized traditional venture capital fund structures, with 2 percent management fees and a 20 percent carried interest. However, this fund structure may not be a viable option for supporting social businesses.

As detailed in Monitor Group's *From Blueprint to Scale*, enterprises pioneering new business models for social change shoulder tremendous upfront burdens, as they are often forced to refine business models through trial and error, build management teams, find customer bases, and assemble complex supply chains.[3] This often adds to the capital required, the time horizon to profitability, and the management support needed from investors. Furthermore, as these enterprises pioneer new business models and operate in new or hard-to-reach markets, the cost of conducting due diligence on these investment opportunities rises. These factors reduce the likelihood of quick and lucrative deals.

There is also a growing realization that the traditional straight equity deals may not be a viable impact investment mechanism, especially in emerging markets. First, many founders who are committed to ensuring social impact are hesitant to give up their controlling equity stake in their businesses. Further, most emerging markets lack established stock exchanges, which precludes the possibility of an exit via IPO and lengthens the investment's time horizon, making it difficult to use traditional time-bound equity funds.

[3] *Koh, H.K., Karamchandani, A., & Katz, R. (2012). From Blueprint to Scale. Monitor Group.*

To overcome the limitations of straight equity, impact investors in emerging markets have developed a variety of innovative "quasi-equity" investment tools, many of which may prove to be important mechanisms for the domestic impact investing sector. For example, convertible debt instruments allow lenders to make a loan with a built-in conversion option that allows the lender to convert the outstanding principal into an equity stake. Royalty-based vehicles are also being successfully utilized as a debt investment, but they exchange more favorable repayment terms for a predetermined share of revenue. These are only a few of the innovative financial tools that are helping to overcome the limitations of pure equity. As impact investing takes off in the United States, it will be important to consider similarly innovative financial instruments.

Knowledge Sharing as the Way Forward

In a sense, impact investing as a mechanism faces the same type of pioneer gap as the ventures it is trying to support. There is a great deal of experimentation, trial and error, and management development required before the industry can begin to function more effectively. While some of the lessons from the emerging market context may transfer to the developed world, the most salient takeaway is the importance of knowledge sharing to overcome gaps.

Other resources

- Cambridge Associates. (2014, May 29). Venture Capital Fund Performance Continues to Strengthen Amid Improving Exit Market. Retrieved from Market Wired: http://www.marketwired.com/press-release/venture-capital-fund-performance-continues-to-strengthen-amid-improving-exit-market-1915336.htm

- Fisher, D. (2012, June 6). Venture Capital Is Glamourous, But Stocks Have Higher Returns. Retrieved July 10, 2014, from Forbes.com: http://www.forbes.com/sites/danielfisher/2012/06/06/venture-capital-is-glamourous-but-stocks-have-higher-returns/

About the Authors

Randall Kempner is executive director of the Aspen Network of Development Entrepreneurs (ANDE). As executive director of ANDE, Kempner oversees the implementation of ANDE's extensive program and advocacy agenda, including training programs for investing in emerging-market entrepreneurs; promoting investment opportunities in emerging market small and growing businesses; and developing standardized financial, social, and environmental metrics for impact investment.

Alex Pan is a program coordinator at ANDE. In this position, Pan helps manage ANDE's global network of regional chapters and facilitates collaboration and knowledge sharing among ANDE's 200-plus members. He also manages ANDE's initiatives to systemically address the talent gap for small and growing businesses and leads ANDE's efforts to create a more supportive ecosystem for science-, technology-, and invention-based entrepreneurship in the developing world.

• POINT OF VIEW •

MAKING SURE THE JUICE IS WORTH THE SQUEEZE

John Goldstein, Managing Director, Imprint Capital

In 2007, John Goldstein co-founded Imprint Capital, which has gained a national reputation for no-nonsense help to foundations seeking to examine, launch, and evaluate impact investing programs. Imprint Capital has advised on more than 100 different impact investments with ten of the largest 25 foundations in the country, including the $8 billion W.K. Kellogg Foundation.

Goldstein's practical approach to impact investing, his extensive background in finance, and his willingness to speak in plain English all serve as something of a beacon in a field overshadowed by so much analysis and chatter (passionate arguments in favor of impact investing opposed by equally passionate counter-arguments) that thoughtful foundation leaders often can't find their way to truth and reality. For leaders wondering if (and to what extent) their foundations should become involved in impact investing, Goldstein helps them decide — in his own words — if "the juice is worth the squeezing."

Imprint started as a hedge fund whose initial impact focus vanished as its growth quickly outstripped market opportunity at that point. That time has seen a lot in impact investing — from the popularization of the term itself, growth in the practice, significant new entrants (e.g. most of the large investment banks), and attention of national and international governments (e.g. G7 task force on impact investing).

John Goldstein's Five Rationales and Realities (But NOT Rules) of Impact Investing

One

The biggest rationale for impact investing has less to do with investments and a lot to do with philanthropy. Impact investing makes foundations smarter, gives them more connections, informs and enhances their grant-making, and helps them identify the innovations in the markets they are trying to change. In sectors that foundations are interested in — health, education, environment, food — some of the key innovations are coming out of the private sector, and foundations often make grants in a relative vacuum from the private sector. As mission investing gets foundations into that private sector, foundation leaders gain knowledge and insight — and they become better philanthropists. One of the best examples, in our experience, is a little talked about element of a much vaunted impact investment. While Revolution Foods has been rightly praised for providing healthier school food on a daily basis for 200,000 kids (80 percent of whom are low income), the bigger impact of that investment was arguably helping to inform the W.K. Kellogg Foundation's policy ask that led to new, better standards for school food. Understanding market innovation in distributed energy has already, even before writing its first mission investment check, helped inform the McKnight Foundation's thinking on transmission policy.

Foundations sometimes say we OUGHT to do mission investing…it is a public good… we OUGHT to have our investments aligned. But if the only benefit you are getting is

alignment, it is not worth the fight. On the other hand, when impact investing leads you to do the research that helps you understand markets and when that in turn makes you better at your core business of philanthropy, then you are cooking with gas.

Two

It's time to parse the big tent. One of the issues that has kept many large foundations from understanding and pursuing the benefits of #1 is that impact investing has become a large, crowded tent that can be confusing, overwhelming, and misleading. Foundations (and their trustees, CIO's, executives, and program officers) either find themselves distracted by the wrong examples or paralyzed by the 1000 points of light — dizzyingly diverse, often unrelated examples.

Clearly laying out and contextualizing the rationales, approaches, benefits and costs of the practices of impact investing (e.g. public markets mission-related investments for alignment and learning; private markets mission-related investments for impact and broader learning; mission-driven investing a la Kellogg Foundation for deeper partnership, learning and impact; and program-related investments) can help organizations find their own path forward.

Moreover, the clarity that comes with that process gives a strong foundation and momentum to future action. The McKnight Foundation's recent announcement of a $200 million commitment to impact investing was the product of just such a process. In fact, while $200 million ended up being 10 percent of their endowment, the figure actually as arrived at by adding target allocations the board selected for each of the four practices outlined above.

Three

The drawing board is a great place for asking questions and a lousy place for answering them. People too often get stuck on wondering if impact investing is going to work or not and how it will perform. Miles and miles of spreadsheets are produced to try to answer the unanswerable. If you are going to do it, *do it.* Yes, you have to think about staffing, structure, process, and how things are going to work, but the best way you are going to learn if something works is by leaving the drawing board and going out and doing it. When the time comes, jump in the pool and do not just stick your toe in. Do not dabble. Do not just keep your options open. Giving yourself the option of doing something is not the same as making a commitment to do something.

We worked with a family foundation where one group thought that 3 or 4 percent devoted to mission investing was enough while another group wanted 100 percent. We did not get hung up on trying to decide which group was right. Instead, we agreed that the investment committee would look at some of these impact investment opportunities and, if they passed muster, we would go ahead with them and, if they did not, we would not invest. No need to establish a minimum or maximum of impact investing at the outset. Instead, we let a good process guide us. Two years later, this foundation is at 50 percent mission investing and both groups are convinced they won…the conservatives because they insisted on good process and the other group delighted how far and fast the foundation went into impact investing. That was accomplished because we got away from the drawing board and started actually doing it.

Four

It is all about execution – things can go right or can go wrong in organization, staffing, and process. Fundamentally, impact investing is about iteration and learning. A commitment to all that it takes bears fruit – policy impact, learning returns, influence, and improvement.

In investing, success is not about whether one invests, it is about how well one does it. Impact investing is no different. As quickly as groups can get past theorizing about WHETHER they will perform well and turn to the question of HOW to perform well, the better.

The first ingredient in nonsuccess is failure to have the support of multi-level leadership. At a minimum that means someone at the board, CEO, or executive level and someone at the senior staff level who can act as the day-to-day champion of your impact investment initiative. Support at all levels is best, of course — as is having all the stakeholders at the table instead of trying to do shuttle diplomacy from one decision-maker to another. One foundation we worked with had a mid-level person who was excited about impact investing and the president was broadly supportive but wouldn't champion it when the investment office proved resistant. In the end the foundation was not able to overcome the resistance.

That approach stood in contrast to the W.K. Kellogg Foundation where long-time program officer Tom Reis partnered with Anne Mosle, vice president, and Sterling Speirn, former president, to support the program. Lessons can also be taken from the McKnight Foundation where a cross-functional group that included board, investment committee, President, VP of Finance, and Head of Program shepherded the process of considering, designing and launching their impact investing initiative.

Another nonsuccess ingredient is under-resourcing the impact investment program. A foundation investing $100 million in a program that is overseen by one or two staff members who have other day duties — that is not going to work.

Large foundations thinking that they have teams who have the background, mindset, skill-set and time to be cross-trained from making grants to making investments can be mistaken.

Another ingredient that leads to nonsuccess is having a patchwork quilt of occasional consultants. A long-term integrated relationship with a consultant works best if one is relying on external resources.

Bringing in someone totally new from the outside to drive impact investing might not lead to nonsuccess but it is a lot harder to make work than when you have someone in the organization to drive impact investing and who has social capital within the foundation and a strong organizational context.

Five

We are seeing tremendous growth in impact investing across foundations and the financial institutions that serve them. When I meet with senior people at large investment banks, it is because those people understand the markets and believe that impact investing will persist. Morgan Stanley, Merrill Lynch, Goldman Sachs, JP Morgan, Credit Suisse, and Deutsche Bank would not all have active impact investing initiatives if they did not see deep enduring demand for this work.

The presentation at Kellogg that helped unlock $100 million from the endowment was very simple and focused on the limitations of grant-making around sustainability, scale, exit, and enterprise. These are the important issues that were not being addressed by grant-making or represented fundamental challenges with grant-making.

The wide appeal of impact investing for foundations is going to be how it enhances the core business of philanthropy either by making foundations better grant-makers or by giving foundation leaders the tools that take their work where grant-making cannot go.

About the Author

Mr. Goldstein co-founded Imprint Capital in June 2007. He leads the firm's business development initiatives, works closely with many of Imprint's clients particularly on strategy formation, and directs continuous improvement of impact monitoring and reporting. Previously, Mr. Goldstein was a co-founder of Medley Capital Management (MCM), a private investment firm that invests in corporate and asset-based financing opportunities globally. Prior to forming MCM, Mr. Goldstein served as Senior Managing Director of Medley Global Advisors, a leading independent policy intelligence firm for the world's largest financial institutions that was sold to private equity firms in December of 2005. During that time, Mr. Goldstein co-founded and served as the Executive Director of the Medley Institute, where he worked with a variety of development actors globally as a board member, senior advisor or team member, including Global Giving, Distributed Capital, the International Interfaith Investment Group (3iG), Keystone/Access, the Sustainable Food Lab, Synergos/Generon/Monitor's Social Capital Market Accelerator, Aquaya, Triple Bottom Line Institute, the Global Exchange for Social Investment, and the United Nations Capital Development Fund. Additionally, in that capacity, Mr. Goldstein has been a presenter at a range of conferences and events in the U.S. and Europe. Prior to that, Mr. Goldstein was a management consultant in the strategy practice of Andersen Consulting (now Accenture), working with senior executives around the world in a number of industries on issues such as brand strategy, "buyer values" market research, global M&A, scenario planning, and new product development. Mr. Goldstein was an honors graduate of Yale University where he was awarded the Richter Fellowship and the Townsend Prize.

THE ROLE OF U.S. POLICY IN IMPACT INVESTING

The practice of impact investing has helped to organize, amplify, and define the alignment in public and private sector interests. It has helped provide a framework through which governments can leverage their influence over private markets to promote clearly defined and complementary goals. Today, federal, state, and local governments continue to strategically develop this alignment, using a variety of policy levers, such as tax credits, co-investments, and procurement policies to drive improved outcomes for parents and children in communities across the country.

While the value of impact investing rests on its ability to yield social and environmental outcomes, its growth and its integration into mainstream markets depends on aligning those outcomes to the priorities and capacities of the public sector. Impact investing and policy have become interdependent, as investors look for ways to scale and governments seek to attract capital to spur economic development.

Propelled by uneven economic growth and stagnant low-income housing markets, policymakers began to actively support this symbiosis amid the "Urban Crisis" of the mid-20th century—a shift captured in President Lyndon Johnson's 1964 address: "We should call upon the genius of private industry … to help rebuild our great cites," he told the Congress on Housing and Community Development, inviting market-based intervention to complement the government-led programs of Great Society.[xlix] Since then, the public sector has continued to expand and standardize this practice. Three years after President Johnson's address, for example, Senator Robert Kennedy was among the first to suggest tax credits as a way to incentivize private sector participation in affordable housing, a method scaled to the commercial markets with the Low Income Housing Tax Credit of 1986 and still supporting the sector today.

In general, early impact investing policy sought to redress market failures where they limited financial access for moderate- and low-income communities. In recent years, these policies have evolved to not only fill financing gaps, but to do so in a way that fosters an increasingly diverse set of social outcomes made accessible through expanded market activity. For example, policies have extended beyond those that support affordable housing to include areas such as small business and community health, along with direct investment in social outcomes through forms of outcomes-based financing (e.g., social impact bonds).

HIGHLIGHTING THE ROLE OF FEDERAL POLICY

- **Demonstrating Market Viability:** Many investments in middle and low-income communities lack long track records of success, which increases perceived risk for investors. A number of government-led initiatives have helped to prove these perceived risks are in many cases unfounded, or they may be mitigated through risk-sharing strategies. The demonstration effects of these early investments have helped to promote investments beyond those regulated or guided by government intervention.

  Example: The Community Reinvestment Act (CRA) of 1977 regulates against discriminatory commercial lending practices ("redlining") and mandates

that banks invest in low-income communities where they have depositors. Between 1992 and 2007, this act mobilized over $4 trillion in CRA loans, helping to not only to meet the rising credit needs of underserved communities, but also demonstrate the low-risk nature of such investments.

- **Lowering Barriers to Entry:** Even if impact investments are proven to be relatively low risk, they may still fall outside of the expertise areas of commercial investors. Alternatively, impact investors may hope to engage in new and unfamiliar sectors or regions. In both cases, a robust intermediary infrastructure has helped to lower transaction costs (both human and financial) for investors diverging from their traditional competency areas, which in turn may reduce the cost of capital for investees (by reducing expenses associated with extensive due diligence, for example).

  Example: The Department of Treasury certifies Community Development Finance Institutions (CDFIs), which provide credit and financial services for underserved communities (at least 60 percent of their financial services) and capitalizes them via its CDFI Fund. The CDFI Fund has awarded over $1.9 billion since its creation in 1994. Because CDFIs are embedded within communities and have an in-depth understanding of local market context, they are able to more flexibly manage and price investment risk.

- **Providing Credit Enhancement and Incentives:** Despite policy initiatives or natural market progression that address issues of distorted risk and information asymmetries, certain impact investments may have inherently higher risk-return profiles (due to issues such as low liquidity, exit risks, and due diligence costs). In these cases, policy intervention can provide ongoing credit enhancement or tax credits to encourage the inflow of "non-concessionary" capital. Forms of credit enhancement include first-loss capital, overcollateralization, debt guarantees, letters of credit, insurance, and reserve accounts, each of which can help control and moderate risk for commercial investors at various points of the capital structure.

  Example: The New Markets Tax Credit (NMTC) awards tax credits to private investors in exchange for qualified equity investments in Community Development Entities (CDEs)—specialized financial institutions that direct their investments to low-income communities. Since Congress formed the NMTC Program, the CDFI Fund has allocated a total of $40 billion in tax credit authority to CDEs, including $3 billion in Recovery Act awards and $1 billion of special allocation authority for redevelopment of the Gulf Opportunity Zone.[i]

- **Unlocking Capital:** Some longstanding policies have yet to adapt to evolving understandings of risk, leaving many innovative businesses with social impact in need of investments. As the National Advisory Board report states, "certain regulatory barriers stand in the way — leaving much private capital on the sidelines."[ii] In particular, legal requirements and the conventions of "fiduciary duty" restrict large institutional asset owners, such as pension funds, endowments, and insurers, from considering social or environmental returns in the investment process. Regulatory changes, such as the inclusion of "safe harbor provisions" for impact-oriented investments, could help ease restrictions and accurately reflect current understanding of investment risk and impact opportunity.

EDUCATION

Credit Enhancement for Charter School Facilities Program: In 2002, the U.S. Department of Education (DOE) administered the Charter School Enhancement Program to help charter schools access affordable private sector capital for facilities financing. The program provides grants to "public and nonprofit entities," which in turn enhance the credit of charter schools through the following:

- Guaranteeing, insuring, and reinsuring bonds, notes, evidences of debt, loans, and interests therein.
- Guaranteeing and insuring leases of personal and real property.
- Facilitating financing by identifying potential lending sources, encouraging private lending, and other similar activities that directly promote lending to, or for the benefit of, charter schools.
- Facilitating the issuance of bonds by charter schools or by other public entities for the benefit of charter schools by providing technical, administrative, and other appropriate assistance.

Since the program's inception, DOE has awarded $243 million in Credit Enhancement for Charter School Facilities grants, which have, according to DOE, enabled $3.19 billion in financing for charter school facilities. Through the initiative, less than 1 percent of all funds awarded were lost to default. As the Department notes: "This low default percentage suggests that, contrary to the perceptions of private lenders, charter schools are not risky borrowers. The Credit Enhancement for Charter School Facilities Program thus addresses a mismatch in the market between the perception and reality of charter school creditworthiness and, over time, is likely to produce data that will encourage private lenders to make loans and other financial arrangements with charter schools without the need for credit enhancement."

ECONOMIC ASSETS

Impact Investment SBIC Fund: Founded in 1958, the Small Business Administration's (SBA) Small Business Investment Company (SBIC) Program is a public-private partnership that works to facilitate the flow of capital to small businesses through publically leveraged but privately owned and operated investment funds. Certified and licensed by the SBA, SBICs invest their "own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses."[lii]

In 2011, the SBA formed the Impact Investment SBIC Fund as part of President Obama's Start-Up America Initiative. The fund makes long-term, government-backed investments in later stage/mezzanine SBICs that in turn invest at least half their capital in businesses either located in a low-income community or those that operate in the "national priority" areas of clean energy or education.[liii]

Over five years, the SBA will commit up to $1 billion in SBA guaranteed leverage using its current debenture authorization. Because of this leverage, private investors are able to participate in social investments for low-income communities while achieving optimal risk-adjusted financial returns. Similar to investments made to CDFIs, SBIC investments automatically qualify for CRA credit, further facilitating the inflow of commercial capital through both pricing and access.

HEALTH

Healthy Food Financing Initiative: In 2010, Department of Treasury (Treasury), Department of Health and Human Services (HHS), and Department of Agriculture (USDA) formed the Healthy Food Financing Initiative (HFFI) – an inter-agency partnership to increase access to affordable, healthy food options for underserved urban and rural communities. The multi-year, multi-agency effort aims

to mobilize a diverse capital set to support financial institutions, nonprofits, businesses, and public agencies that increase healthy food access, particularly for neighborhoods that lack supermarkets and other food-related anchor institutions. Operating across the market, the HFFI utilizes tax credits, grants, low-cost loans, and technical assistance with the goal of eliminating food deserts. According to the Implementation Plan, the partnering government agencies provide the following:[liv]

USDA provides research support to identify food deserts and financial and technical assistance, including grants, loans, loan guarantees, and market promotion resources to a wide range of entities, but does not have longstanding relationships with Community Development Financial Institutions (CDFI) or Community Development Corporations (CDCs) that have successful models for improving food access.

Treasury supplies flexible capital to CDFIs and other financial intermediaries to expand affordable financing to underserved businesses but generally does not directly support efforts to strengthen the supply chain between local producers and consumers that is critical for expanding the distribution of fresh food.

HHS targets assistance to community development organizations for a myriad of projects that typically cannot leverage private funding like a financial intermediary, like a CDFI, can.

KEY FEDERAL POLICIES

The summary table on the following pages highlights some key federal policies that have helped facilitate the growth of impact investing and the availability of private investment seeking both financial and social returns.

CONCLUSION

Over the last decade, the impact investment field has emerged as a potential breakthrough solution that can unlock new sources of capital and supplement public and philanthropic dollars, creating sustainable social impact alongside financial returns. This report capitalized on a window of opportunity in an emerging field to review market-rate impact investments and gather lessons to improve the lives of low-income children and families in the United States. Impact investing is not a silver bullet, and there is a great deal of hype surrounding the field. However, there are opportunities to use market-based tools and strategies to address the growing inequality threatening American families.

POLICY	DESCRIPTION
Community Reinvestment Act (CRA)	Signed into federal law in 1977, the CRA was created to reduce discriminatory lending practices by requiring depository institutions to meet the credit needs of low- and moderate-income communities. Banks are rated annually based on their effectiveness in serving the residents and businesses of the neighborhoods they serve. Private investment under CRA was roughly $54.8 billion in 2013.
Affordable Housing Programs for Government-Sponsored Enterprises (GSEs)	The GSEs – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks – were founded to provide stability to financial markets and promote mortgage affordability while at the same time protecting the taxpayer. Affordable housing programs established in the 1990s were designed to allow GSEs to increase the availability of loans and housing to historically underserved communities. The recent financial crisis saw Fannie and Freddie placed under conservatorship, and the GSEs are now required to support affordable housing through mandatory contributions to the National Housing Trust Fund and the Capital Magnet Fund, which support affordable rental housing.
Low-Income Housing Tax Credit (LIHTC)	The LIHTC subsidizes equity investments in affordable housing through dollar-for-dollar tax credits. To qualify, the property must have a certain percentage of units that are rent restricted and occupied by families at certain income levels. Established by the Tax Reform Act of 1986, LIHTC accounts for close to 90 percent of all affordable rental housing in the U.S.
Rental Assistance Demonstration (RAD)	This federal initiative was established by the U.S. Department of Housing and Urban Development in 2011 to meet the capital needs of public housing authorities (PHAs) to improve and convert blighted properties. RAD provides access to private and public funding through rental subsidies and allows PHAs to transfer ownership to private or other nonprofit entities. Congress has authorized conversion of 60,000 units under RAD during the current pilot phase (2011-2015).
Jumpstart Our Business Startups (JOBS) Act	The JOBS Act was signed into law in 2010 to stimulate funding for small businesses by easing several securities regulations. The act covers a wide range of policies, with its most popular provisions being Titles II and III. Title II went into effect in September 2013 and loosened restrictions on private offerings. Title III, which is still pending, opens up the availability of direct investment in small business through crowdfunding to investors at all income levels.
Community Development Financial Institutions (CDFI) Fund	The aim of the CDFI Fund is to increase economic opportunity in underserved and distressed communities through increased access to capital and credit. The fund carries out targeted programs and works alongside other community development programs, such as New Market Tax Credits, LIHTC, and the CRA, to provide financial and technical support to CDFIs. The CDFI Fund has awarded over $1.9 billion since its creation in 1994.
Employee Retirement Income Securities Act (ERISA)	ERISA was signed into law in 1974 and established minimum standards for private pension plans that are regulated through the Department of Labor. Varying interpretations in recent years of a "rigid rule" around economically targeted investments have affected the availability of capital for investments that seek a social return alongside a financial return.
New Markets Tax Credit (NMTC)	The Community Renewal Tax Relief Act of 2000 established the NMTC to incentivize private investors to direct capital to low-income and distressed communities through certified Community Development Entities (CDEs). The CDFI Fund administers the program and grants allocations to CDEs that apply annually for authority to raise a certain amount of capital from investors. The investors are then allowed to reduce their federal tax liability by 39 percent of the amount of their investment over seven years.

POLICY	DESCRIPTION
Program-Related Investments (PRIs)	PRIs are debt and equity investments foundations can use to support their stated missions. PRIs were enabled by the Tax Reform Act of 1969 and have since grown to become important tools for impact investing. PRIs often serve as concessionary or first-loss capital that attracts other public and private investors to deals they may otherwise avoid.
Small Business Investment Company (SBIC) Program	The SBIC Program is a fund within the Small Business Administration (SBA) that makes investments in licensed investment firms (SBICs) that in turn make investments of debt and equity in small businesses. The SBA can provide up to a 2-to-1 match in government guaranteed debentures for each $1 that an SBIC raises from a private investor. In 2013, the SBIC Program invested $3.5 billion in 1,068 small businesses, all at zero cost to taxpayers.
Healthy Food Financing Initiative (HFFI)	HFFI began in 2010 as an undertaking of three federal agencies to increase access to healthy and affordable food in underserved communities. HFFI uses multiple policy tools to attract new investors, reduce barriers to investment, and develop investment opportunities in "food deserts." The initiative attracts private sector investment through the use of NMTCs and capacity-building technical and financial assistance to CDFIs to direct capital to businesses that provide healthy food options.
Credit Enhancement for Charter School Facilities Program	This program is administered by the Department of Education and provides grants to help charter schools enhance their credit and gain access to private and public financing to acquire, construct, or renovate school facilities. Since it began in 2002, the program has awarded approximately $243 million in grants.

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APPENDIX A: LIST OF INVESTORS RESPONDING TO SURVEY

ACTIVE INVESTORS (*INVEST IN TARGET IMPACT AREAS)

1. Arabella Advisors*
2. The Annie E. Casey Foundation*
3. Bank of America Merrill Lynch Capital Access Funds Management, LLC*
4. Calvert Foundation*
5. The CAPROCK Group*
6. Civic Capital Group*
7. The Community Foundation of Greater Greensboro
8. Community Foundation of the Holland/Zeeland Area
9. DBL Investors
10. F.B. Heron Foundation*
11. Ford Foundation*
12. Habitat for Humanity International*
13. i2 Capital Group*
14. Island Foundation
15. The Kresge Foundation*
16. The Lemelson Foundation
17. Mary Reynolds Babcock Foundation*
18. Melville Charitable Trust
19. Meyer Memorial Trust*
20. NewSchools Seed Fund*
21. O.P. and W.E. Edwards Foundation*
22. Piton Foundation*
23. The Pittsburgh Foundation*
24. Renewal Funds*
25. Rockefeller & Co.
26. The San Francisco Foundation*
27. Santa Fe Community Foundation*
28. Virginia Community Capital*
29. Wieboldt Foundation*

Interested, but not yet active

30. Community Foundation for Muskegon County
31. Phil Hardin Foundation

International Only

32. Elevar Equity

APPENDIX B: DEFINITIONS OF KEY TERMS

TYPES OF INVESTMENT PRACTICES

Social Investing
Social investing is a term with many uses, but it generally refers to investing that considers social and environmental issues. Social investing includes investments made with the intention of having a positive impact, investments that exclude "harmful" activities, and investments that are driven by investors' values and don't necessarily correspond to having a positive social or environmental impact. Impact investing is a subset of social invest; it refers only to the social investing that actively seeks to have a positive impact. (Monitor, 2009)

Socially Responsible Investing
Using a negative screen to exclude companies considered ethically problematic. (ImpactSpace, www.impactspace.org)

Sustainable and Responsible Investing
Sustainable and responsible investing (SRI) is an investment discipline that considers environmental, social and corporate governance criteria (ESG) to generate long-term competitive financial returns and positive societal impact. (US SIF, http://www.ussif.org/sribasics)

Values-Based Investing
Investment philosophy that considers criteria based on social and environmental values alongside financial returns when selecting an investment opportunity. Term used by many wealth management firms, e.g. UBS and Merrill Lynch. Can include impact investments, but not exclusively, as it can also include negative screening or using corporate responsibility practices as a decision driver. (UBS, www.ubs.com)

Impact Investments
Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the circumstances. (GIIN, www.thegiin.org)

Mission Investing
The practice of using financial investments as tools to further the investing foundation's mission. These tools, mission investments, provide a unique and flexible complement to grants, the conventional philanthropic device. Mission investments can take the form of debt or equity and can be funded by either program or endowment funds. (Compounding Impact: Mission Investing by US Foundations, 2007)

Mission Investments
Investments made with the deliberate intention of achieving a social benefit tied to the foundation's mission and to recover the principal invested or earn a profit. Mission investments are extremely varied. They can be made suing either program or endowment dollars and can be a wide range of debt or equity investment types. (Compounding Impact: Mission Investing by US Foundations, 2007)

Mission-Related Investments
- MRIs are market-rate investments that support the mission of the foundation by generating a positive social or environmental impact.
- MRIs can be made in investments that in the wider investment community are referred to as socially responsible investments, investing in emerging domestic markets, double/triple bottom line investing, green investing, or impact investing.
- An MRI is fundamentally a financial investment, and must meet applicable prudent investor standards just like more conventional investments.

- MRI opportunities exist across asset classes in cash, fixed income, public equity, private equity and venture capital, and real estate. (Mission Investors Exchange, https://www.missioninvestors.org)

Program-Related Investments

- PRIs are below-market rate investments that are made with a targeted program objective.
- PRIs are defined by the IRS tax code, and they are eligible to count against the 5% payout that foundations are required to make each year to retain their tax-exempt status. PRIs must:
    - be made primarily to further the foundation's charitable purpose;
    - lack any significant investment purpose; and
    - they may not being used for electioneering or lobbying.
- PRIs may be made in the form of loans, loan guarantees, cash deposits, equity investments and other investments made for a specific purpose such as affordable, workforce housing, and community development facilities.
- Foundations vary in their approach to PRIs—they may include PRIs as part of their grant budget, or choose to view PRIs within the context of their endowment investment allocation. (Mission Investors Exchange, https://www.missioninvestors.org/mission-investing)

Below Market-Rate Mission Investment: A mission investment with an expected financial return that is below market rate levels in order to achieve a mission-related benefit. For example, a foundation can provide a loan with zero or one percent interest to a nonprofit organization so that the nonprofit can allocate the resources it would otherwise spend on market rate interest payments to funding operations. (FSG Social Impact Advisors, 2007)

Market-Rate Mission Investment: A mission investment with an expected financial return that approximates the average risk-adjusted rate of return of a similar investment with no mission criteria. (FSG Social Impact Advisors, 2007)

Environmental, Social, And Governance Screening (ESG): Criteria used to evaluate a socially responsible investment; three areas of concern when measuring the sustainability and ethical impact of an investment in a company or business.

ASSET CLASSES DEFINED
(Compounding Impact: Mission Investing By US Foundations, 2007)

DEBT MISSION INVESTMENTS
CONDITIONAL INVESTMENTS

Loan Guarantee: Pledge of financial resources to guarantee payment of a loan by a third party borrower. Loan guarantees enable borrowers to access funds that they otherwise could not and may also reduce the interest rates paid. Although the full amount of the guarantee is encumbered through the period of the guarantee, the foundation does not disburse funds unless the pledge is called and can continue to earn investment returns on these funds until needed. The amount of a loan guarantee is not an eligible distribution and therefore does not count in a private foundation's 5% payout requirement.

- Example: A foundation works with a local bank to guarantee low-interest rate student loans for local youths who otherwise have few education funding options. Leveraging its funds in this way provides significantly greater resources to students than just awarding one-time scholarships.
- Example: A foundation guarantees a loan from a bank to a nonprofit for purchasing a building, enabling the nonprofit to secure a lower interest rate.

Recoverable Grant: A grant to an organization with a commitment from the investee to repay under specified circumstances. In some cases, repayment is required if certain milestones are met. In others,

the repayment amount is eliminated (all or in part) when certain milestones are met. The transaction is treated as a grant until recovered.

- Example: A foundation makes a recoverable grant to a housing agency to help finance the cost of a site plan application to a zoning and planning commission. If the project is approved and financing is secured, the housing agency repays the grant.
- Example: A foundation makes a recoverable grant to a new social enterprise, with an agreement that if the social enterprise reaches profitability milestones it will repay the grant.

DEPOSITS

Insured Deposit: Funds placed in a depository institution (typically a Community Development Bank or Credit Union) earning a set rate of interest. Funds are insured by governmental agencies.

- Example: A foundation invests in a Certificate of Deposit at a community development bank. The interest on this investment is market-rate.

Linked Deposit: Funds placed in a depository institution (typically a Community Development Financial Institution) in exchange for a commitment from the institution to provide low-interest loans to qualified/specified borrowers.
Example: A foundation makes an investment in a Certificate of Deposit at a community development bank with the understanding that the funds will be used to provide loans to local businesses in order to spur economic development and job creation. The bank pays 1.5% interest to the foundation and charges 3.5% interest to the businesses, a below-market rate.

- Example: A foundation makes a deposit in a community development bank at a below-market rate in order to capitalize a loan fund administered by the bank that focuses on redevelopment of the city's central business district.

LOANS

Loan (Senior or Subordinated): Funds provided to an organization with a commitment to repay the principal within a set period of time plus a specified rate of interest. Loans can have senior or subordinate status, affecting the lender's priority of repayment over other creditors.

- Example: A foundation makes a loan to a childcare center to enable it to purchase a building instead of continuing to pay rising rents.
- Example: A foundation makes a loan to capitalize a microfinance institution that provides micro-loans to women entrepreneurs.

Line of Credit: A specified amount of unsecured credit extended to an organization for a specified time period, typically with a set amount of interest for the time until repayment. As funds are repaid, the organization can re-borrow funds.

- Example: A foundation provides a line of credit to a biological research institution to finance ongoing operating expenses.
- Example: A foundation provides a credit line to a local land trust to finance periodic purchases of land for preservation.

Loan Fund (Senior or Subordinated): Fund comprised of a pool of senior or subordinated loans. A loan fund investment entails less risk than an individual direct loan. Loan funds can have senior or subordinate status, affecting the lender's priority of repayment over other creditors.

- Example: A foundation invests in a loan fund providing mortgages to low-income homeowners.

- Example: A foundation invests in a loan fund focused on charter schools' facility development.

FIXED INCOME SECURITIES

Bond: A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock (typically individual bonds in our study). Can be issued by public, private, or government/municipal entities.

- Example: A foundation invests in a bond issued by a development bank for rural cooperatives.
- Example: A foundation purchases California Stem Cell Research and Cures Bond Anticipation Notes (BANs) to provide interim funding for research and training grants.

Bond Fund: Mutual fund that invests in government and corporate bonds, and other bond investments. Provides an ongoing income stream.

- Example: A foundation invests in a bond fund comprising community development bond offerings.

Mortgage Backed Securities: Bond with cash flows that are backed by a pool of homeowners' mortgage payments.

- Example: A foundation invests in a security backed by a pool of loans to low- and moderate-income borrowers to purchase homes across the southern U.S..

Other Asset Backed Securities: Bonds backed by a pool of financial assets (e.g., accounts receivables, credit card debt, or other credit) that cannot easily be traded in their existing form. Through pooling, these illiquid assets can be converted into instruments that can be traded more freely.

EQUITY MISSION INVESTMENTS
REAL ESTATE

Real Estate (individual investments): Purchase of real estate and/or funding of construction of real estate. Foundations often buy buildings and lease them at low rates to nonprofits.

- Example: A foundation focused on strengthening the local nonprofit sector purchases a building and rents it out at below-market rates to nonprofit organizations
- Example: A foundation purchases land and develops a building for use by a university research center, charging below-market lease rates until the cost is recovered and then transferring ownership to the university.

Real Estate Fund: A fund that invests in residential and/or commercial real estate, typically in low-income areas.

- Example: A foundation invests in a real estate fund focused on purchasing and developing commercial or mixed-use real estate to spur economic development in a targeted area.

PUBLIC EQUITY

Public Equity Fund: Fund that purchases stock in public companies using screens for inclusion (positive screening) or exclusion (negative screening) based on social criteria. (Although screening is a mission investing approach, only a fund that uses positive screens linked to the foundation's mission qualifies as a mission-related investment.)

- Example: A foundation focused on environmental protection invests in a screened mutual fund that includes only companies with strong environmental records.

- Example: A foundation focused on human rights invests in a screened mutual fund that includes only companies with strong human rights and labor relations records.

Direct Public Equity (investment in individual companies): Purchase of stock of individual publicly traded companies.

- Example: A foundation with an environmental protection mission purchases shares of a company that produces environmentally-friendly products.
- Example: A foundation with an environmental protection mission purchases shares of a company with a record of poor environmental practices in order to advocate as a shareholder for new environmentally responsible business practices.

PRIVATE EQUITY

Direct Private Equity: Investment in a private company, whether a traditional for-profit company, a social enterprise, or a socially focused financial enterprise such as a microfinance institution.

- Example: A foundation focused on environmental protection makes an early-stage direct investment in a private company developing technology for cleaner fuel usage.
- Example: A foundation focused on addressing a major disease invests in an early-stage private biotechnology company conducting research on potential cures.

Private Equity Fund: A fund that buys majority stakes in post-early-stage companies or business units to restructure their capital, management teams, and organizations.

- Example: A foundation invests in a private equity fund focused on companies in low-income areas of the Bay Area of California in order to encourage economic development and job creation.
- Example: A foundation invests in a microfinance equity fund that provides equity capital to microfinance institutions worldwide.

Venture Capital Fund: A fund that buys equity stakes in early-stage small and medium-size enterprises with strong growth potential.

- Example: A community foundation invests in a venture capital fund that provides capital and technical assistance to early-stage businesses in its state.
- Example: A foundation focused on medical research invests in a venture capital fund that funds early-stage biotechnology companies.

ENTERPRISE TYPES

B-corp: companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.

Community development financial institution (CDFI): a financial institution whose primary mission is community development by providing credit, financial services, and other services to underserved markets or populations. (Compounding Impact: Mission Investing by US Foundations, 2007)

Double-bottom line: Measurement of a company's performance by profit and social impact.

Inclusive business: Expand access to goods, services, and livelihood opportunities for those in low-income communities in commercially viable, scalable ways.

L3C: The low-profit, limited liability company, or L3C, is sometimes referred to as a type of hybrid of a nonprofit and for-profit organization. More specifically, it is a new type of limited liability company (LLC) designed to attract private investments and philanthropic capital in ventures designed to provide a social benefit. Unlike a standard LLC, the L3C has an explicit primary charitable mission and only a secondary profit concern. But unlike a charity, the L3C is free to distribute the profits to its members/ owners.

Social business: first defined by Mohammed Yunus, social business is defined as a non-loss, non-dividend company designed to address a social objective within the highly regulated marketplace of today.

Social enterprise: definitions vary, but the term generally refers to organizations (for-profit or non-profit) that apply business principles to achieve social or environmental impact.

Triple-bottom line: First coined in 1994 by John Elkington, founder of British consultancy, SustainAbility. Refers to measuring a company's performance by the three P's: people, profit, and planet.

RELATED CONCEPTS AND TERMS

Creative capitalism: Term coined by Bill Gates at 2008 World Economic Forum. Encouraged corporations to do think beyond philanthropy and use business principles and capitalism to address global social challenges.

Blended value: Coined by Jed Emerson. The idea that the value created by an organization is fundamentally indivisible. Thus, one cannot speak of simply "economic value", "social value" or "environmental value"--these quantities are simply parts of one essential value.

BoP+: Refers to the population of people living at income levels at the base of the economic pyramid in developed countries. This population may earn higher incomes than the BoP population in emerging markets, but can still benefit from impact investments that address social challenges specific to their communities.

Market-based solutions: Business approaches that use the power of supply and demand to create products and services that address social challenges.

Social entrepreneur: Act as the change agents for society, seizing opportunities others miss to improve systems, invent new approaches, and create solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur develops innovative solutions to social problems and then implements them on a large scale.

Social impact bond: A contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to investors. A social impact bond (SIB) is not a bond, per se, since repayment and return on investment are contingent upon the achievement of desired social outcomes; if the objectives are not achieved, investors receive neither a return nor repayment of principal. SIBs derive their name from the fact that their investors are typically those who are interested in not just the financial return on their investment, but also in its social impact.

APPENDIX C: INVESTOR AND SAMPLE INVESTMENT PROFILES FROM SURVEY

Survey respondents were asked to provide three of their most and least successful investments. Thirteen respondents provided examples of successful investments. Below is a summary of the investments and/or funds and the corresponding investor. Information includes the survey responses supplemented by online research.

The Calvert Foundation

1. Central City Concern
2. Girls Inc.
3. Lifelong Medical Care

Habitat for Humanity

4. FlexCAP
5. Microbuild

The CAPROCK Group

6. Huntington Capital

The San Francisco Foundation

7. Opportunity Fund
8. Eden Housing
9. Bay Area Transit Oriented Affordable Housing Fund

Santa Fe Community Foundation

10. Homewise
11. The Loan Fund

Community Foundation of the Holland/Zeeland Area

12. Kandu Inc.

The Pittsburgh Foundation

13. Real Estate Revitalization Loan Fund

The Kresge Foundation

14. Health Co.,
15. Healthy Futures Fund,
16. Feeding America

Mary Reynolds Babcock Foundation

17. Latino Community Credit Union
18. Natural Capital Investment Fund
19. SC Community Loan Fund

O.P. and W.E. Edwards Foundation

20. Portland YouthBuilders
21. Farmworkers Housing Development Corp

NewSchools Seed Fund

22. Carnegie Learning
23. Wireless Generation
24. Engrade
25. Goalbook
26. Brightbytes
27. Ellevation

Meyer Memorial Trust

28. A FQHC
29. Low income clinic
30. Wrap around service provider

The Annie E. Casey Foundation

31. Bay Area Equity Fund
32. Coastal Enterprises
33. Accion Texas

CALVERT FOUNDATION

Investor Type: CDFI	**Years Actively Making Investments:** 19 years
Endowment Size or AUM: $50 MM < x ≤ $250 MM	**HQ Location:** Bethesda, MD
Investment Geographic Focus: International	**Invests in:** Affordable housing, education, environmental protection, fair trade, financial inclusion, healthy communities, job creation, women's empowerment.
Capital Committed in US: At least 60% of portfolio, which is raised by selling fixed income products to retail investors.	**Capital Deployed in US:** No more than 40% of portfolio

The Calvert Foundation defines impact investments as:
"An impact investment allows investors to earn a financial return while also creating social good. Calvert Foundation generates positive social and environmental impact by creating affordable housing, promoting education, protecting the environment, and numerous other impacts."

About – General (http://www.calvertfoundation.org)
Calvert Foundation enables people to invest for social good. Through the Community Investment Note, we connect individual investors with organizations working around the globe, developing affordable housing, creating jobs, protecting the environment, and working in numerous other ways for the social good. Learn more about the issue areas our investors are addressing.

Since 1995, more than 13,500 Calvert Foundation investors have invested roughly $800 million in our portfolio partners.

Growing the Impact Investment Economy
In addition to offering our flagship Community Investment Note, we've been building the impact investment economy through ImpactAssets and our wholly owned subsidiary Community Investment Partners.

ImpactAssets is a Donor Advised Fund that enables investors and philanthropists to manage their portfolios with equal regard for problem solving and profit. Our wholly owned subsidiary Community Investment Partners helps institutional clients build and manage customized portfolios of impact investments.

WIN-WIN Initiative
The Women Investing in Women Initiative (WIN-WIN) enables retail investors to invest in women through healthcare, microfinance, and education.

WIN-WIN launched in March 2012 and has recently surpassed $20 million in lending to organizations that empower women.

As the first women-focused impact investment available to everyday investors, WIN-WIN represents a milestone in impact investing. Having met the goal of the initiative to lend $20 million to organizations empowering women, we plan to launch a WIN-WIN 2.0 in the fall of 2014 that focuses on women and clean energy in the developing world.

WIN-WIN would not have happened without the vision and support of The Citi Foundation, The Women in the World Foundation, Criterion Ventures, The Cordes Foundation, and Eileen Fisher.

CALVERT FOUNDATION – REPORTED SUCCESSFUL INVESTMENTS

CENTRAL CITY CONCERN, Portland, OR
(http://www.centralcityconcern.org)

Investment Amount:	**Investment Type:** Fixed Income (WIN-WIN Loan Recipient)
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Description:
http://www.calvertfoundation.org/impact/stories/114-central-city-concern

From survey: Central City Concern was our first U.S.-based borrower and has used our growing investments in it over the years to advance its comprehensive continuum of affordable housing options and rehabilitation services for the Portland, Oregon area impacted by homelessness, poverty, and addiction.

About Central City
Central City Concern (CCC) is a 501(c)(3) nonprofit agency serving single adults and families in the Portland metro area who are impacted by homelessness, poverty, and addiction. Founded in 1979, the agency has developed a comprehensive continuum of affordable housing options integrated with direct social services including healthcare, recovery, and employment. Central City Concern's innovative strategies supporting personal and community transformation include direct access to housing, integrated healthcare services for people who are often alienated from mainstream systems, the development of peer relationships to nurture and support recovery, and attainment of income through employment or accessing benefits.

CCC currently has a staff of 600+ and an annual operating budget of $55 million, serving more than 13,000 individuals annually. CCC maintains approximately 1,600 homes for low-income individuals and families.

Highlights in affordable housing during 2013 were:
- Completed Letty Owings Center exterior renovation that included roof replacement, energy upgrades, exterior paint and renovated front entry.
- Completed energy upgrades and ADA improvements at the Henry building for Veterans
- Completed insulation and window improvements at Taggart Manor family housing

Highlights in Employment were:
- CCC's Employment Access Center secured 509 jobs for people at an average pay of 15% above the minimum wage. -
- Nearly 200 local businesses hired individuals from our employment programs.
- 100 people graduated from the Community Volunteer Corps that provided approximately 12,000 hours of community service
- 60 individuals employed in our Clean & Safe training program
- Central City Bed, developed in 2010, began earning a profit and its design is patent-pending. It has been sold to customers in more than six states.
- Central City Coffee strengthened its distribution and is available in 17 grocers in the greater Portland metro area.

Highlights in Health & Recovery were:

- Nearly 3,000 people engaged with recovery programs at CCC.
- Old Town Clinic and Old Town Recovery Center provided holistic care to nearly 5,000 patients.
- Old Town Clinic Pharmacy doubled its capacity thanks to an extensive remodel.
- Urgent care - evening and Saturday hours - diverted 2,398 patient visits from emergency rooms. - "Enrollers" helped nearly 1,000 people enroll in Medicaid or private insurance during 2013 and work continues on this front.
- CCC announced Eastside Concern with recovery support and culturally-specific programming

GIRLS, INC., Alameda County, CA
(http://www.girlsinc-alameda.org)

Investment Amount:	**Investment Type:** Fixed Income (WIN-WIN Loan)
Investment in: Education, Economic Security, Health	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

From survey:
Girls' Inc - impact: http://www.calvertfoundation.org/impact/stories/167-girls-inc-of-alameda-county

About Girl's, Inc.
Girls Inc. of Alameda County is a nonprofit organization dedicated to inspiring all girls to be strong, smart, and bold. We are a local affiliate of the national Girls Inc. organization, which provides vital educational programs to millions of American girls, particularly those in high-risk, underserved areas. We believe generations are transformed when girls are equipped with knowledge, information and confidence. They grow up strong, smart and bold. At Girls Inc. of Alameda County, when girls, ages 5-18 are engaged in our award-winning programs, they develop the essential skills and tools they need for college, career and life success. Our process: we begin with building foundations in literacy and support girls developmentally with each milestone along the way, including academic achievement, positive risk taking, health and fitness, advocacy, leadership and more. We're unique in that we serve the whole girl and her family by providing on-site mental health counseling as well. Our nationally developed programs are the result of studies conducted by the *Girls Incorporated National Resource Center* - the largest and most comprehensive research center on girls in the country.

Girls' Inc - impact: http://www.calvertfoundation.org/impact/stories/167-girls-inc-of-alameda-county

Accomplishments: We continue to grow and evolve each year, constantly increasing our capacity to reach out to at-risk East Bay girls, and we're proud that $.85 of every dollar raised goes directly to our programs. Over the past year, our advances, achievements and sound fiscal management has been locally and nationally recognized:

- Ranked 5th of 178 top national high-impact youth serving nonprofits in 2011 by Philanthropedia, a GuideStar research organization.
- Received the United Nations-USA East Bay's 6th Annual Global Citizen Award; the Northern California Community Loan Fund's "Non-Profit Community Impact Award"; and Youth Radio's Community Champion Award.
- Films made by Advocating Community Together participants through the Women's Film Institute's Generation HERstory Media Arts Project premiered at the San Francisco International Women's Film Festival in April, 2011.

- Named by the Clinton Global Initiative in 2009 and 2010 as one of 13 programs that "will improve the lives of girls and women around the world."

Perhaps none is more striking than the remarkable number of young women who go on to higher education; 95 percent of our seniors enroll in college—many of whom are the first in their families to attend an institute of higher learning.

LIFELONG MEDICAL CARE, Alameda County, CA
http://www.lifelongmedical.org

Investment Amount: $2,000,000	**Investment Type:** Fixed Income)
Investment in: Health	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:** Expand clinic capacity to serve 9,600 total patients
Year of Investment:	

Investment Description
Calvert Foundation recently made a $2 million loan to support the West Berkeley Family Practice in expanding its facility from 12,000 to 20,000 square feet. This new space will increase the clinic's capacity, allowing it to serve 9,600 total patients.

The **West Berkeley Family Practice,** a community health center of LifeLong Medical Care, is the primary health services provider for uninsured individuals and families in its community. It also is one of very few providers dedicated to providing quality health services for low-income residents. West Berkeley has the lowest median income in the city of Berkeley, with an estimated 32% of children in the area living in poverty.

LifeLong West Berkeley has approximately 15 providers who are trained to treat people at all stages of their lives; together, these providers see approximately 3,000 patients each month. The clinic provides a holistic patient-centered care model, where patients can access primary care, women's health services, mental health services, chronic disease screening and management, health education, and social services resources all under one roof, regardless of their insurance status.

About LifeLong
LifeLong Medical Care provides high-quality health and social services to underserved people of all ages, creates a model of care for the elderly and people with disabilities, and advocates for continuous improvements in the health of our communities.

LifeLong Medical Care operates 10 community clinics in Alameda and Contra Costa counties, a Supportive Housing Program, one Adult Day Health Center, and three school based health centers.

These clinics provide a wide range of services, including primary health and dental care; pediatric, adult and geriatric care; and chronic disease and HIV/AIDS treatment. Lifelong strives to give everyone a chance at a healthy life, providing a positive, caring environment for those who face significant barriers to attaining better health

HABITAT FOR HUMANITY INTERNATIONAL

Investor Type: Boutique Investment Fund	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $50 million < x ≤ $250 million	**HQ Location:** Atlanta, GA
Investment Geographic Focus: International	**Invests in:** Affordable housing.
Capital Committed in US: $50M	**Capital Deployed in US:** $40M

HFHI defines impact investments as:
"An investment made with the intention to generate social and financial returns."

FlexCAP, National

Fund Amount: $131.7 MM in loans generated	**Investment Type:** Fund
Investment in: Economic security: Affordable housing	**Investee Type:** Non-profit – Habitat affiliates
Financial Return Expectations:	**Social Return Expectations:**
Year of Fund Origination: 1997	

FlexCAP is a Habitat for Humanity International (HFHI) administered program that enables participating affiliates to borrow against selected mortgages in their portfolios, thereby generating funding to provide decent, affordable housing to deserving families. HFHI is the parent entity of the Habitat for Humanity network of affiliates ("Habitat"), which is operated pursuant to a federated organizational model.

Through FlexCAP, HFHI has developed a consistent secondary market for Habitat mortgages on a national basis.

- Since 1997, FlexCAP and its predecessor program have generated $131.7 million in loans for 263 U.S. affiliates, providing funding for approximately 3,900 new Habitat homes.
- During this 15 year history, there has never been a delinquency on the investor notes.

HFHI estimates that its U.S. affiliates currently hold $1.4 billion in mortgages. Although Habitat mortgages are 0 percent interest, they are otherwise much like conventional mortgages and typically have 20 to 30 year terms. By using FlexCAP to accelerate the receipt of income from mortgages, affiliates recover the cost of Habitat homes in a much shorter period of time and receive ready cash to build more affordable homes.

FlexCAP Program Overview

- 7 to 10 year notes issued to investors, which are secured by a collateral assignment of general obligation notes from participating Habitat affiliates.
- **Loan term**: Affiliates select a loan term of seven or ten years and pledge specific mortgages as collateral.
- Affiliate loans are sized based upon the discounted value of a seven or ten year payment stream from the pledged mortgages.
- Actual monthly payments from the pledged mortgages are used by affiliates to make payments to HFHI, which then makes the principal and interest payments on the investor notes. The investor notes and affiliate loans are self-amortizing through equal quarterly payments.

Investors receive multiple layers of credit protection under FlexCAP. If a pledged mortgage becomes delinquent, the affiliate is required to substitute a performing mortgage of equal or greater value. In addition, each affiliate must deposit an amount equal to one quarterly payment in a reserve account held by the trustee. HFHI further protects investors by providing a repayment guarantee of 5 percent of the outstanding balance of the investor notes. Finally, the loans are full recourse obligations of the affiliates, providing investors eventual access to the participating affiliates' unencumbered assets in the event of a default.

In order to attract affiliate participation, HFHI seeks **below market rate** capital from investors. The greater availability of below market funds will increase affiliate participation in FlexCAP, which in turn will provide affiliates with more funding to build affordable houses.

Summary of FlexCAP Terms and Conditions	
Terms	7 and 10 years
Rates	Negotiable – HFHI seeks below market rate capital
Amortization	Quarterly
Covenants	105% cash flow test; 125% value test; 60% leverage limit
Cash Reserve	One quarterly payment
HFHI Guarantee	5% of outstanding investor note balance
Security	Habitat affiliate notes, plus underlying mortgage collateral
Prepayments	Allowed after 1 year
Reporting	Semi-annual (financial & social impact metrics)
Number of Offerings	2 per year (June and December)

Microbuild
http://www.habitat.org/lc/hw/inside_habitat/MicroBuild_Fund.aspx

Fund Amount: $50M - goal	**Investment Type:** Fund
Investment in: Economic security: Affordable housing	**Investee Type:** Microfinance institutions
Financial Return Expectations:	**Social Return Expectations:**
Year of Fund Origination	

Most microfinance institutions focus on providing low-income families with commercial loans, so that families can start, or improve upon, income-generating activities. Habitat is working to convince these microfinance institutions that they should also offer housing loans.

The point is simple: make more capital available to families in need of decent housing. To that end, Habitat for Humanity International has launched the MicroBuild Fund, which will provide funding and technical assistance for housing improvements worldwide. The initial goal is to raise $50 million for MicroBuild, with Habitat leveraging all donations.

The money will be directed to responsible microfinance institutions so that they can begin offering housing loans to their low-income clients.

The CAPROCK Group

Investor Type: Private Wealth Manager/Institutional Consultant	**Years Actively Making Investments:** 1 to 5 years
Endowment Size or AUM: $1 billion + $25% to 50% of portfolio focused on impact investments	**HQ Location**: San Jose, CA
Investment Geographic Focus: Both US and Global	**Invests in:** Education, Economic Security, Health
Capital Committed in US: $350MM	**Capital Deployed in US:** $250MM

The CAPROCK Group defines impact investments as:
"Investments that offer both a market rate financial return and which have impact intentionality baked into the business model."

About the CAPROCK Group
The CAPROCK Group develops customized, comprehensive and strategic financial solutions for high net worth individuals and families who don't have the expertise or the time to do so on their own. We base every decision on unbiased analysis that suffers no outside pressure and that has only one goal: to protect and grow our clients' wealth. We invest in people and technology to deliver transparent, comprehensive performance reporting. We impose structure on what we frequently see as quasi-organized confusion.

Integrating Impact Investing (i3)
The CAPROCK Group's approach to Impact Investing is unique in its ability to connect capital with those who seek it, while protecting those who hold it.

The majority of CAPROCK's impact investments are made via funds (75%) and 100 percent are in for-profit investments.

REPORTED EXAMPLE INVESTMENTS/FUNDS

HUNTINGTON CAPITAL, Las Vegas and San Diego
http://www.huntingtoncapital.com

Fund Amount: $131.7 MM in loans generated	**Investment Type:** Fund
Investment in: Economic security: Affordable housing	**Investee Type:** Non-profit – Habitat affiliates
Financial Return Expectations:	**Social Return Expectations:**
Year of Fund Origination: 1997	

Huntington Capital seeks to be the best-of-class mezzanine fund serving the lower middle market in the western United States with a particular emphasis on California. This is measured first by return to investors and second by contributions by our portfolio companies to their communities. Huntington was founded in 2000 and is currently operating three limited partnerships, Huntington Capital, L.P., formerly
a federally licensed Small Business Investment Company (SBIC), Huntington Capital Fund II, L.P. and Huntington Capital Fund III, L.P both institutional limited partnerships.

Our limited partners include the State of California pension funds and their institutional fund managers and advisors, along with leading insurance companies, banking institutions, family offices, and foundations.

We are proud to continue the innovative heritage of our founders by providing capital and strategic assistance to small business entrepreneurs while making a positive and measurable contribution to the community.

Huntington Capital provides growth capital to companies that have been in operation for at least two years, have at least one year of profitable operations and the potential for continued profitable growth. The most critical factor in our decision is the quality of the management team. Because of the various ways Huntington Capital can structure a transaction it is not necessary for our clients to plan on selling the company or focus on a strategy for taking the company public. We can tailor financing packages for our borrowers that match their company's unique situation.

THE SAN FRANCISCO FOUNDATION

Investor Type: Community Foundation	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $1 billion + 1% ≤ x < 5% focused on impact investments	**HQ Location**: San Francisco, CA
Investment Geographic Focus: San Francisco, CA	**Invests in:** Education, Economic Security, Health
Capital Committed in US: $6MM	**Capital Deployed in US:** $4.25MM

The San Francisco Foundation defines impact investments as:
Loans and loan guarantees to nonprofit entities, insured mission deposits in local community banks and credit unions, and equity investments in for-profits

About – General (http://sff.org)

The San Francisco Foundation is an incubator for community investment, original ideas, and passionate leadership. Since 1948, we have been bringing together networks of philanthropists and civic leaders to support and build on the strengths of the community and make the Bay Area the best place it can be.

We are a leading agent of Bay Area philanthropy. We rank among the nation's largest community foundations in grantmaking and assets. We cultivate a family of donors sharing a commitment to the Bay Area. Together, we give millions of dollars a year to foster strong communities, respond to local needs, and elevate public awareness.

PRI Fund
The San Francisco Foundation's Program-Related Investment Fund is now offering high-impact donors a sophisticated, local investment strategy with exceptional social and environmental returns in the Bay Area. Program-related investments strengthen communities by providing nonprofits and social enterprises access to capital unavailable to them through traditional lending. By offering low-interest, long-term capital, our Fund helps organizations build credit, and as loans are repaid new investments are made, recycling capital to benefit the community.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Opportunity Fund
http://www.opportunityfund.org

Investment Amount: $500,000	**Investment Type:** PRI - Loan
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

The Opportunity Fund is a leading microlender to small businesses in the San Francisco Bay Area – creating jobs and economic activity by providing small loans to Bay Area entrepreneurs and small businesses. The San Francisco Foundation's Program-Related Investment Fund provided a $500,000 loan to The Opportunity Fund that will be leveraged to make upward of $1.5 million to small businesses that are unable to access bank financing due to their size, credit history, or lack of

collateral. The low and moderate-income borrowers selected by The Opportunity Fund are all women or ethnic minorities.

Eden Housing, San Francisco, CA
http://www.edenhousing.org

Investment Amount: $500,000	**Investment Type:** Loan - PRI
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Eden Housing, Inc., an affordable housing developer, launched an ambitious project to install solar panels at 27 of their properties. The San Francisco Foundation's Program-Related Investment Fund loaned Eden Housing $500,000 to help to finance the installation of solar photovoltaic panels on eight of its affordable multi-family properties in the San Francisco Bay Area – projected to save up to $1.1 million in electricity costs.

These savings will be invested in Eden's social service programs including technology training and after school programs for residents and their children. Additionally, the energy generated from the installed solar panels will reduce Eden's CO2 emissions by an estimated 1.2 million pounds, the equivalent of the annual electricity use of 682 homes.

Bay Area Transit Oriented Affordable Housing Fund (TOAH), San Francisco, CA
http://bayareatod.com

Investment Amount: $500,000	**Investment Type:** PRI - Loan
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Affordability in urban, transit hubs is a key issue in the San Francisco Bay Area. Well-designed transit oriented developments enable residents to access basic services and work without driving. This can effectively reduce air pollution and help preserve open space and agricultural land. The San Francisco Foundation's Program-Related Investment Fund invested $500,000 in the Bay Area Transit-Oriented

Affordable Housing (TOAH) Fund to bring transit-oriented plans across the Bay Area to life. Over seven years of collaboration, coordination, and trust-building amongst partners, **The San Francisco Foundation's $500,000 seed loan was leveraged into a $50 million loan fund to develop affordable housing around transit**. In December 2012, the TOAH Fund was awarded the Environmental Protection Agency's prestigious Smart Growth Achievement Award.

SANTA FE COMMUNITY FOUNDATION

Investor Type: Community Foundation	**Years Actively Making Investments:** Less than 1 year
Endowment Size or AUM: $50 MM < x ≤ $250 MM	**HQ Location**: San Jose, CA
Investment Geographic Focus: U.S. Only	**Invests in:** Education, Economic Security, Health
Capital Committed in US: $1.5 MM	**Capital Deployed in US:** $500K

The Santa Fe Community defines impact investments as…
"Investing in funds, organizations, and companies with the intention of generating a positive social and environmental impact, as well as a financial return. Priority is given to local impact investing."

About – General (http://www.santafecf.org)
The Santa Fe Community Foundation helps donors plan and carry out their giving in Santa Fe and beyond. We improve the quality of life in Northern New Mexico by building and managing charitable funds established by individuals, families, groups, organizations, and institutions. We make grants from these funds that both anticipate and respond to community need. We also provide technical assistance, convening, and grantmaking services to family foundations.

Our mission is to ensure that philanthropy and nonprofit service are effective in supporting healthy and vital communities. Working in partnership with other foundations, public agencies, and the business sector, the SFCF brings the voice of philanthropic leadership to critical civic issues.

Impact Investing
In August 2012 our board of directors decided to embark on a local impact investing initiative. We plan to use at least $1.5 Million of our endowed assets to invest in promising local opportunities that promote our mission in Northern New Mexico region while providing financial return over the next few years. The Foundation will consider opportunities in the areas of economic development and job growth, affordable housing, financial security for vulnerable families, nonprofit capacity building, education, food security, and environment.

While we will consider investment opportunities on a case-by-case basis, initially we will prioritize opportunities to invest in intermediaries. We hope that, by partnering with local intermediaries, we can help to build stronger impact investment infrastructure and opportunities in our community.

REPORTED EXAMPLE INVESTMENTS/FUNDS

NOTE: We are very early in our impact investment phase, just having completed our first two investments early in 2014. There are several potential deals we are currently reviewing in pipeline. We do not have assessment from our existing investments yet.

Homewise, Santa, Fe, NM
http://homewise.org

Investment Amount: $250,000	**Investment Type:** Subordinated Loan - PRI
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:** Expand second mortgage program.
Year of Investment: 2014	

In February of 2014, the Foundation made its first impact investment, a $250,000 low-cost loan to Homewise, a Santa Fe-based nonprofit that helps make home ownership a reality for low- to moderate-income families. This loan will help Homewise expand its second mortgage program. We could not be happier to help make affordable housing a reality for more Santa Feans.

About Homewise
Homewise is a full-service non-profit promoting successful homeownership. We help you understand and improve your finances by providing free financial workshops and one-on-one home purchase advising to help you become ready to buy your own home. Once you are ready to buy, we help you find the home of your dreams that also fits your budget and needs. Our lending team will help you secure an affordable fixed-rate mortgage with a monthly payment that fits your budget. Homewise is with you at every step of the home buying process.

The Loan Fund, Santa Fe, NM
http://www.loanfund.org

Investment Amount: $250,000	**Investment Type:** Subordinated Loan - PRI
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment: 2014	

In April of 2014, the Foundation made its second investment of $250,000 to The Loan Fund, a New Mexico non-profit that has helped hundreds of small business owners and nonprofits achieve self-reliance and financial success through loans, training, and business consulting. This work will support low-to-moderate-income small business entrepreneurs and nonprofit organizations that directly benefit low-income families in our communities.

Over the next several years, we will monitor the progress of the investment to gauge both the financial and social return on our investment. We will look at the number of housing units funded, the number of families served, and the impact on financial security of homebuyers such as increase in credit score, increase in assets, and decrease in household debt of affected families.

About the Loan Fund
The New Mexico Community Development Loan Fund (The Loan Fund) is a nonprofit community lending institution. We provide **loans**, as well as **training and consulting services** to small businesses,

entrepreneurs and nonprofit organizations in New Mexico that are typically unable to obtain financing through traditional lending sources.

The Loan Fund was founded in 1989 to help alleviate poverty by creating and preserving job opportunities throughout New Mexico, particularly in low-income communities. In total, The Loan Fund has made over $55 million in loans that have created or preserved over 7,500 jobs in New Mexico.

COMMUNITY FOUNDATION OF THE HOLLAND/ZEELAND AREA

Investor Type: Community Foundation	**Years Actively Making Investments:** 1 to 5 years
Endowment Size or AUM: $50 million < x ≤ $250 million Impact investments represent 1% ≤ x < 5% of portfolio.	**HQ Location**: Holland, MI
Investment Geographic Focus: U.S. Only	**Invests in:** Investments vary from affordable housing, small business to infrastructure projects mostly through intermediary loan funds.
Capital Committed in US: $1.5MM	**Capital Deployed in US:** $500K

The Community Foundation of the Holland/Zeeland Area defines impact investments as:
Program Related Investment (PRI) is our version of impact investment at the Community Foundation of Holland/Zeeland Area. PRIs are available social tools that the Board can use in complementary to our traditional grant making strategy as there are circumstances that a grant is not always a fit. Our PRI program seeks to fund projects that provide social returns while at the same time aim to preserve capital for future impact investments. Our goal is to invest in the success of other organizations through PRIs for positive social change, For Good and For Ever.

About – General (http://cfhz.org)
The mission of the Community Foundation of the Holland/Zeeland Area is to create lasting positive change. We work to build a permanent community endowment that supports high impact charitable projects, to help donors achieve their charitable goals, and to lead and partner in community level initiatives.

Our areas of interest are education, arts and culture, health, social services, the environment, recreation, community development and the needs of the youth and the elderly in our community.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Kandu Inc., Holland, MI
http://www.kanduinc.org

Investment Amount: $250,000	**Investment Type:** PRI – Loan (5 year term)
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment: 2012	

Kandu Inc. has played an important role in providing jobs to people with employment barriers, particularly those with developmental disabilities. It has taught employment and life skills to thousands of individuals who previously considered unemployable.

With the proceeds from this PRI, Kandu Inc. was able to add a new line, military bandage project, to its existing business model. Not only Kandu could bring the bandage production that used to be produced in Israel to the United States, but it was also able to immediately create 30 jobs for disadvantaged people, with the goal to increase that number to 60 by the end of the loan period. We think it was the right tool for the right organization at the right time! It's a win-win-win solution for Kandu, for the community foundation, and the community.

About Kandu
Kandu is a not-for-profit organization that couples a menu of business, product, and service offerings with our overarching mission of building work skills and creating opportunities for people with barriers to employment.

While we may technically be called a nonprofit organization, Kandu has functioned for over 60 years like a business. We produce revenue from our products and services, and we pay the bills with those revenues. So we know what it's like to compete, to grow, to change and to diversify. Really, the only difference between us and any other company is that we are driven not by profit from investors, but by the commitment of putting people to work in our community.

We pay attention to things like quality, speed and cost savings because our business depends on them. We know your business does too. If you need light manufacturing services, a flexible labor supplier, or custodial services, we have the resources to support you cost-effectively. Kandu is a business that helps other businesses compete more effectively. We invite you to learn more by talking with us or touring our facility. You'll be amazed by the things you can accomplish faster and better with the help of Kandu Incorporated.

Kandu is founded upon the idea that everyone has the potential to do good work. We develop potential in two ways:

Individually, by helping people overcome barriers that are preventing them from working. For example, physical disability, lack of experience, a poor work history, drug and alcohol use, a cognitive impairment, etc. At Kandu we train them through providing paid work, and remove or help overcome barriers for them to work at other companies.

For businesses, by providing cost-effective work and services that companies cannot afford to do in-house. For example, assembly, collation, light machining, and clean room operation. We have had many businesses partner with us for years. Businesses like Herman Miller, Haworth, Gentex, JCI, Sherwin Williams, and many more.

THE PITTSBURGH FOUNDATION

Investor Type: Community Foundation	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $1 billion +	**HQ Location**: Pittsburgh, PA
Investment Geographic Focus: U.S. Only	**Invests in:**
Capital Committed in US: $6MM	**Capital Deployed in US:** $6MM

The Pittsburgh Foundation defines impact investments as:
We have not formally defined this term, but I would define it as any non-grant related investment that has at least a component that supports our mission. It would include mission related investments (both above and below market rate) and program related investments.

About – General (http://pittsburghfoundation.org)
Established in 1945, The Pittsburgh Foundation is one of the nation's oldest community foundations and is the 14th largest of more than 750 community foundations across the United States.

As a community foundation, our resources comprise endowment funds established by individuals, businesses and organizations with a passion for charitable giving and a deep commitment to the Pittsburgh community. The Foundation currently has more than 1,900 individual donor funds and, together with its supporting organizations, assets of over $1 billion. Grantmaking benefits a broad spectrum of community life within Pittsburgh and beyond

The Foundation has strengthened its focus on community and the positive impact it strives to achieve through its grantmaking, the engagement of its donors in critical regional issues and its activities around convening and leadership in collaboration with funding and civic partners.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Real Estate Loan Fund

Although we have been pursuing impact investing for a long time, we have made very few investments. The most successful one was a real estate loan fund that a local business group initiated to provide financing for underutilized industrial properties.

THE KRESGE FOUNDATION

Investor Type: Private Foundation	**Years Actively Making Investments:** 1 to 5 years
Endowment Size or AUM: $1 billion + 1% ≤ x < 5% focused on impact investments	**HQ Location**: Troy, MI
Investment Geographic Focus: U.S. Only	**Invests in:** Health
Capital Committed in US: $70MM	**Capital Deployed in US:** $50MM

The Kresge Foundation defines impact investments as:
Supportive of Program priorities or overarching goals of the Foundation

About Kresge's Social Investment Practice (www.kresge.org)
We began investigating ways to accelerate change by expanding beyond grantmaking in 2007.

Since then, we have developed investment systems and established the groundwork to evolve as a capital provider able to provide a range of support from grants to equity.

Social investing allows us to leverage our assets and intervene in places not well served by the private financial sector. That might mean providing capital to borrowers doing business in economically stressed communities – where the risks are above average – or to buffer the economic risk of borrowers piloting new financing structures.

We know that lack of capital prevents child-care and health centers, housing developers, grocers and other service providers from engaging in activities that could stabilize, revitalize and grow low-wealth communities.

We use loans, deposits, equity and guarantees to support such organizations and efforts when they advance our programs' goals.

We seek to attract capital from other sources, including financial institutions, private investors, other foundations, donors and government agencies.

Because our goal is advancing social good, we take more risk than private-sector financers when there is commensurate opportunity for impact.

In 2013 our Social Investment Practice managed 29 active commitments representing $57.4 million in program-related investments. Dollars repaid are redeployed in new investments. (See Social Investment Highlights to learn about each commitment.)

Support provided through social investing augments the amount we are required by the U.S. tax code to distribute each year.

In 2013, the Board of Trustees approved 316 awards totaling $122 million and $128 million was paid out to grantees over the course of the year.

Our Social Investment Practice made commitments totaling an additional $17.7 million.

How We Work
Although we occasionally fund a program or an organization directly, we more often work with partners such as community development finance institutions. While our resources ultimately support

activities ranging from energy-efficiency projects to refinancing for homeowners facing foreclosure and supportive housing, funding comes through such partners.

Organizations with prospective projects should acquaint themselves with the Kresge program that most closely aligns with their activity. Our social investing and program teams work together to review proposals.

Shrinking government support for helping the vulnerable and people with low incomes achieve economic security increases the importance of cross-sector partnerships and maximizing the impact of philanthropic dollars.

In addition to structuring investments, we also strive to advance this work more broadly, bring potential partners together and serve as ambassadors. For example, working with partners we have convened leaders from health centers, community development, affordable housing and government for a summit on health center lending and innovation.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Health Co. (info not available on website)

Healthy Futures Fund , Chicago, IL
http://www.healthyfuturesfund.org

Investment Amount: $6,000,000	**Investment Type:**
Investment in: Health	**Investee Type:** Fund
Financial Return Expectations:	**Social Return Expectations:** 500 affordable housing units with integrated health services Serve 75K people
Year of Investment: 2012	

Established by Kresge, Morgan Stanley and the Local Initiatives Support Corp., this $100 million fund utilizes Low Income Housing Tax Credits and New Market Tax Credits to expand access to health care and affordable housing for low-income residents.

The fund supports the construction of 500 affordable housing units with integrated health services, as well as eight federally qualified health centers that will serve an estimated 75,000 people. The fund also fosters collaboration between affordable housing developers and health care providers, constituencies that often work side-by-side in low-income neighborhoods but rarely in a coordinated fashion.

Feeding America, Chicago, IL
www.feedingamerica.org

Investment Amount: $2,500,000	**Investment Type:** PRI - Loan
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment: 2009	

The nation's leading domestic hunger-relief organization utilizes a vast network of food banks and charitable agencies to collect and distribute 2 billion pounds of food to more than 25 million Americans annually. A five-year, low-interest loan helps finance the purchase of 20 to 25 refrigerated trucks to increase food-delivery capacity.

Mary Reynolds Babcock Foundation

Investor Type: Private Foundation	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $50 MM < x ≤ $250 MM	**HQ Location**: Winston-Salem, NC
Investment Geographic Focus: Both US and Global	**Invests in:** Education, Economic Security, Health
Capital Committed in US: $8MM	**Capital Deployed in US:** $28.5MM

Mary Reynolds Babcock Foundation defines impact investments as:
We use the term "mission investing" to encompass both below-market program-related investments and market-rate investments that are aligned with our values but not necessarily connected to our specific program outcomes or geography. Our mission investing portfolio includes direct PRIs, one fixed income market-rate investment that is directly related to asset development in the Southeast, and one SRI public equities fund.

About – General (http://mrbf.org)
The Mary Reynolds Babcock Foundation assists people in the Southeastern US to build just and caring communities that nurture people, spur enterprise, bridge differences and foster fairness. Our mission is to help people and places to move out of poverty and achieve greater social and economic justice. We support organizations and networks that work across race, ethnic, economic and political differences to make possible a brighter future for all.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Latino Community Credit Union, Raleigh, NC

Investment Amount:	**Investment Type:** PRI – secondary capital
Investment in: Economic Security	**Investee Type:** CDCU
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Latino Credit Union empowers members with ethical financial products and education to help them access opportunities for their families and communities. We are proud to serve a diverse membership from the U.S. and 110 other countries around the world.

Natural Capital Investment Fund, Sheperdstown, VA

Investment Amount:	**Investment Type:** PRI – secondary capital
Investment in: Economic Security	**Investee Type:** CDFI
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

PRI for business revolving loan fund; Founded in 2001, Natural Capital Investment Fund (NCIF) is a business loan fund that provides debt financing to small businesses located in West Virginia; North Carolina; the Appalachian regions of Maryland, Virginia, Kentucky, Tennessee, and Ohio; South Carolina; and south Georgia.

SC Community Loan Fund

Investment Amount:	**Investment Type:** PRI – Revolving Loan Fund
Investment in: Economic Security	**Investee Type:** CDFI
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

We support the development of vibrant, sustainable communities by providing loans, technical assistance, and advocacy for affordable housing, healthy food retail, community facilities, and community businesses.

Not listed in survey, but on website:

Community Capital Management invests in high-quality, government-related bonds to support enterprise development, affordable homeownership, comprehensive community development and affordable multi-family housing in the Southeast. The Babcock Foundation made a $5 million investment in 2005 as part of the fixed income portfolio.

Value of investment: $5 million investment in 2005, now worth $8.5 million

Financial return*:
+3.8 percent for past 3 years (benchmark: +3.7 percent Barclays Capital Aggregate Index)
+4.2 percent since inception (benchmark: +4.8 [percent Barclays Capital Aggregate Index)

Social Return (cumulative 2005-2014):
$3.9 million in home mortgages for 38 families
$5.2 million in enterprise development activities, including four small business loans totaling approximately $570,000
$4.5 million in multifamily mortgage-backed securities that finance affordable housing for low- and moderate-income families and seniors
$1.4 million of comprehensive community development projects
$3.7 million to support statewide home ownership

O.P. and W.E. Edwards Foundation

Investor Type: Private Foundation	**Years Actively Making Investments:** 6 to 10 years
Endowment Size or AUM: $ $10 million < x ≤ $50 million	**HQ Location**: Red Lodge, MT
Investment Geographic Focus: U.S. Only	**Invests in:** Education, Economic Security, Health
Capital Committed in US: $900K	**Capital Deployed in US:** $860K

The O.P. and W.E. Edwards Foundation defines impact investments as:
Loans and investments where the primary concern is the mission impact they have rather than financial returns.

About – General
The O.P. and W.E. Edwards Foundation is a small, family foundation operating out of Red Lodge, MT. Created over fifty years ago in memory of two brothers, the foundation continues to be directed by a board consisting of family members of the two original benefactors.

The mission of the O.P. and W.E. Edwards Foundation General Fund is to provide funding support for programs and non-profit organizations working to provide a bridge to a life of greater opportunity for low-income, at-risk and under-served children, youth and their families.

REPORTED EXAMPLE INVESTMENTS/FUNDS

Portland YouthBuilders, Portland, OR
http://www.pybpdx.org

Investment Amount: $500,000	**Investment Type:** PRI - Loan
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

PRI loan $50,000 for capital improvements. Our mission: to support young men and women who are committed to changing their lives to become self-sufficient, contributing members of the workforce and their community.

About
Our mission: to support young men and women who are committed to changing their lives to become self-sufficient, contributing members of the workforce and their community.

Founded in 1995, Portland YouthBuilders is a non-profit organization committed to providing long term support for low income youth. Each year, we provide education, vocational training, and leadership development services for over 200 young people between the ages of 17 and 24 who have not completed high school and who face significant barriers to success.

PYB is proud to be part of a network of over 250 YouthBuild programs nationwide.

Farmworkers Housing Development Corp, Woodburn, OR
http://www.fhdc.org

Investment Amount: $50,000	**Investment Type:** PRI - Loan
Investment in: Economic Security	**Investee Type:** Non-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

PRI Loan $50,000 for low-income housing development; community-based non-profit organization dedicated to serving mid-Willamette Valley farmworkers and their families.

About
Farmworker Housing Development Corporation is a community-based non-profit organization dedicated to serving mid-Willamette Valley farmworkers and their families. FHDC was established in 1990 when Oregon Legal Services, Salud Medical Center, PCUN (Northwest Treeplanters and Farmworkers United), Farmworker Ministries, and a number of individuals joined forces to establish a single agency for the development of affordable housing for low-income farmworkers.

In 1992 FHDC started the development of our first housing project, **Nuevo Amanecer**, Phase I, amid fierce opposition from some community leaders who preferred to see farmworkers segregated in remote labor camps. Governor Barbara Roberts was instrumental in overcoming this opposition and making this project happen and has continued to support FHDC's efforts. We opened the doors of Nuevo Amanecer to 50 families in 1994.

18 years later, with the addition of our newest developments Westside Apartments and Summerset Village, we now provide housing to nearly 1,300 individuals in five cities (Woodburn, Salem, Stayton, Sublimity and Independence, Oregon.

NewSchools Seed Fund

Investor Type: Private Foundation	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $50 million < x ≤ $250 million	**HQ Location**: Palo Alto, CA
Investment Geographic Focus: U.S. Only	**Invests in:** Education
Capital Committed in US: $12MM	**Capital Deployed in US:**$10MM

NewSchools Seed Fund defines impact investments as:
For-profit investment aligned with our mission - to transform public education for all kids, especially those underserved

About NewSchools – General (http://www.newschools.org)
NewSchools is committed to transforming public education through powerful ideas and passionate entrepreneurs so that all children — especially those in underserved communities — have the opportunity to succeed.

NewSchools Venture Seed Fund
Our Seed Fund supports high potential entrepreneurs developing technology solutions for the biggest challenges in K-12 education. We invest in early stage tech tools, applications, content, and services that improve education opportunities for all children. The Seed Fund also acts as a catalyst, inspiring and enabling traditional and non-traditional tech investors to provide capital to the fast-growing ed tech market.

Carnegie Learning, Pittsburgh, PA
https://www.carnegielearning.com

Investment Amount:	**Investment Type:**
Investment in: Education	**Investee Type:** For-Profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Founded by cognitive and computer scientists from Carnegie Mellon University in conjunction with veteran mathematics teachers, Carnegie Learning not only questions the traditional way of teaching math. We reinvent it.

Why is Carnegie Learning so effective? Because we are constantly doing our homework.

- **20+ Years of Research**: Our curricula are based on more than 20 years of research into how students think, learn, and apply new knowledge in mathematics.
- **Continuous Improvement:** Carnegie Learning does not just read the research on how people learn. We actively participate in the scientific community, frequently sharing results in refereed journals and at conferences.
- **250+ Million Student Observations Annually**: We continuously collect and analyze data and feedback from schools to enhance our curricula and help you teach more creatively and efficiently.

The more we understand how students think and learn, the better we can help them succeed.

Carnegie Learning provides comprehensive solutions to raise students' math knowledge through a combination of classroom activities, adaptive software, and teacher professional development.

1. **Engage and Motivate**: Research shows that students' beliefs about the nature of intelligence, their goals within a learning task, and perception of expectations all strongly impact academic performance. It's time to empower your students to take risks. With Carnegie Learning, students recognize both success and failure as an opportunity to learn, rather than a judgment of their inherent ability.
2. **Promote Deep Conceptual Understanding**: Concepts are well represented and well connected. Carnegie Learning uses real-world situations, manipulatives, graphs, and diagrams to help students see real and relevant connections in what they're learning.
3. **Powerful, Ongoing Formative Assessment**: Rapid feedback and real-time reporting are crucial to you and your students. With Carnegie Learning, students express their knowledge and ideas to you, their peers, and themselves, and become active participants in the learning process.

Wireless Generation (now Amplify), Brooklyn, NY
http://www.amplify.com

Investment Amount:	**Investment Type:**
Investment in: Education	**Investee Type:** For-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

An independent subsidiary of News Corporation, Amplify is built on the foundation of Wireless Generation, the pioneer that brought mobile assessments and instructional analytics to schools across America.

Amplify is reimagining the way teachers teach and students learn. We enable teachers to manage whole classrooms and, at the same time, empower them to offer more personalized instruction, so that students become more active, engaged learners.

Engrade (ACQUIRED by McGraw-Hill)
https://www.engrade.com

Investment Amount: $100,000	**Investment Type:**
Investment in: Education	**Investee Type:** For-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Engrade is a free set of web-based tools for educators allowing them to manage their classes online while providing parents and students with 24/7 real-time online access. Features include a free online gradebook, attendance book, homework calendar, secure SPAM-free messaging, file uploads, progress reports, and more. Engrade has over 3 million registered users and is used by elementary schools, high schools, and universities from all 50 states and over 150 countries around the world.

Goalbook
https://goalbookapp.com

Investment Amount: $200,000	**Investment Type:**
Investment in: Education	**Investee Type:** For-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

Goalbook was founded by a former special education teacher (Daniel Jhin Yoo) and a blended learning technologist (Justin Su), with its mission to enable personalized learning plans for all students.

Goalbook's Plans allows a student's team to collaborate around individualized learning goals.

Goalbook's Toolkit is an online, job-embedded, professional learning tool that empowers teachers to ensure that ALL students can access and achieve the high expectations of Common Core.

The Toolkit provides an online set of scaffolded learning goals, from grade level to mild, moderate, and intense support, that are fully-aligned to the Common Core standards. Universal Design for Learning (UDL) based accommodations and differentiation strategies are provided to increase access for all students. Goalbook also delivers highly rated professional development to districts on improving the quality of specialized instruction.

Brightbytes, San Francisco, CA
http://brightbytes.net

Investment Amount: $100,000	**Investment Type:** 1st inv: convertible note
Investment in: Education	**Investee Type:** For-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment: 2013 and 2014	

BrightBytes uses data to enable the creation of effective 21st Century learning environments. The company's SAAS-based analytics platform, Clarity, measures the impact of technology use on student achievement by collecting school data and analyzing it within a proprietary framework. Based on this analysis, (1) Schools receive a customized roadmaps for improvement, as well as the resources to put the plan into action. (2) Government entities receive measurements of progress that ensure accountability and target spending. (3) Ed-tech providers receive evidence of their products' effectiveness, along with data on the products and services needed throughout the system.

The Company's first product, Clarity for Schools, measures the impact of technology use on student learning outcomes by identifying strengths and gaps, writing detailed planning documents, and delivering the tools needed to take action. The product, which also gives schools and administrators a direct link to their teachers and students, has been adopted by thousands of schools in North America. Led by Rob Mancabelli, BrightBytes just completed a statewide rollout of Clarity in Iowa, in partnership with the Iowa Area Education Agencies, and in the fall of 2013 they will release Version 3 of the Clarity platform. The company is in discussions with several other states.

2013 Seed Round: $750K
2014 Series B: $15MM

Ellevation, Boston, MA
http://ellevationeducation.com

Investment Amount: $300,000	**Investment Type:**
Investment in: Education	**Investee Type:** For-profit
Financial Return Expectations:	**Social Return Expectations:**
Year of Investment:	

The only web-based software platform specifically designed for ELL educators and the English Learners they serve.

Ellevation helps English Language Learners realize their highest aspirations.

The success of our nation's underserved students is closely tied to effective teaching. To support hard-working and passionate educators, we develop solutions to improve instruction, enhance collaboration, and maximize impact.

We constantly learn from educators, and the work we do reflects their insights.

$1.5MM seed round raise;
$2.4MM series A; and
$2.4MM venture round.

MEYER MEMORIAL TRUST

Investor Type: Private Foundation	**Years Actively Making Investments:** More than 10 years
Endowment Size or AUM: $500 MM < x ≤ $1B	**HQ Location**: Portland, OR
Investment Geographic Focus: Both US and Global	**Invests in:** Education, Economic Security, Health
Capital Committed in US: No limit	**Capital Deployed in US:**$78,223,000

Meyer Memorial Trust defines impact investments as:
We use a target to represent our areas of impact. The center of the target would be investments aligned with our grant making located within Oregon and SW Washington. The next ring out would include the NW broadly, then the US.

About – General (http://www.mmt.org)
We work with and invest in organizations, communities, ideas and efforts that contribute to a flourishing and equitable Oregon.

PRIs
Historically, the bulk of MMT's PRIs have been loans. For April 2013-March 2015, the interest rate is 1.75 percent simple interest. PRIs help extend the reach of MMT's grantmaking by providing organizations with less expensive capital to finance new programs or projects, or for the expansion or enhancement of existing ones. They also help agencies attract new financing from mainstream banks and other funders, or build a credit record to qualify for commercial financing. PRIs frequently help build financial management capacity of agencies.

While MMT has been making PRIs since 1984, in 2005 our trustees decided to prioritize PRIs as an investment strategy. We have made PRIs to support affordable housing, community development, cultural organizations, disaster relief, economic development including entrepreneurship and micro-business, social services and open spaces and wildlife habitat protection.

There is no defined minimum or maximum amount that a PRI seeker may request. Historically, amounts have ranged in size from $75,000 to $4,000,000. The bulk of MMT's PRIs have ranged from $100,000 to $500,000.

Database of PRIs: http://www.mmt.org/awards-by-program/14

Example Investments

A FQHC
We made a PRI to a FQHC to buy their medical records systems. By doing the loan they were able to access a larger repayment from Medicaid and repaid us 1 year early.

Low income clinic
We also did a refinance of a 10/25 loan to a low income clinic in rural Oregon. This allowed the clinic to save money each month and also own the facility in less then 10 years rather then the 25-year path they were on.

Wrap around service providers
We have made many PRIs to wrap around service providers who were adding a housing program to their service suite. These have always been well thought out and effective projects.

The Aspen Institute is an educational and policy studies organization based in Washington, DC. Its mission is to foster leadership based on enduring values and to provide a nonpartisan venue for dealing with critical issues. The Institute has campuses in Aspen, Colorado, and on the Wye River on Maryland's Eastern Shore. It also maintains offices in New York City and has an international network of partners.

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