GRANT MAKERS IN HEALTH

GIH

GUIDE TO IMPACT INVESTING

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A SPECIAL REPORT FROM GRANTMAKERS IN HEALTH

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FOREWORD

This guide for health funders is an outgrowth of more than internal discussions at Grantmakers In Health (GIH) and a board retreat. At its March 2010 annual meeting, GIH held a well-attended and highly rated preconference session during which participants learned about the range of ways that domestic health funders are using impact investing to advance their missions. The following month, GIH also convened a meeting of health-focused private equity funds, investors, and advisers. They discussed the opportunities and challenges for foundations interested in leveraging private equity investments to fuel the growth of companies that commercialize health care, prevention, and wellness products with the potential to improve health outcomes for everyone.

Information from those gatherings and other sources in this guide will give readers a better sense of how impact investing may enhance their organization's work, the steps they can take to begin planning and implementing an effective program, and the spectrum of investing options. Hopefully, it will also stimulate a dialogue among financial professionals, program officers, and trustees at health foundations, all of whom work together to make impact investing successful.

Guide to Impact Investing would not have been possible without the generous support of GIH's Funding Partners: California HealthCare Foundation, W.K. Kellogg Foundation, The Kresge Foundation, Robert Wood Johnson Foundation, The California Endowment, and Kaiser Permanente.

In addition, we are grateful to the many professionals at foundations, financial institutions, intermediaries, funds, social sector organizations, and other entities who took the time to explain how they use impact investing, the strategic benefits and greater impact it enables them to achieve, and the challenges they have encountered along the way.

Special thanks to David Erickson and Ian Galloway at the Federal Reserve Bank of San Francisco for hosting the Health-Focused Private Equity Dialogue in April 2010 as part of the research for this publication; to David Wood, director of More for Mission and the Initiative for Responsible Investment, for his helpful review of the draft document; and to David Levitt at Adler & Colvin for his review of legal and regulatory issues.

GIH prepared the guide in partnership with GPS Capital Partners (http://www.gpscapitalpartners.com), a national consultancy that helps funders and other institutional investors design and implement impact investment strategies. The author is Lisa Richter, GPS cofounder and principal. Paul Engstrom of Health & Medical Editorial Services edited the guide.

EXECUTIVE SUMMARY

GUIDE TO IMPACT INVESTING

Grantmakers In Health's (GIH) *Guide to Impact Investing* offers a framework to help funders think strategically about the potential of impact investing and move forward with investment strategies that can enhance achievement of their missions. The guide provides an overview of the spectrum of various impact investment types, and presents case studies of foundation investments. It explores the strategic benefits and added impact of these strategies, and the challenges funders have encountered along the way. The guide also includes how-tos and practical information for funders wanting to get started.

This report is grounded in the view that foundation resources are scarce relative to both philanthropy's aims and society's needs. Effective philanthropy, therefore, leverages resources as fully as possible, combining convening, networking, communications, and policy initiatives with grantmaking to drive social change. As a set of tools, impact investment strategies offer funders tremendous power to shape, accelerate, and scale desired results.

Broadly defined as foundation financial investments that advance mission while recovering principal or earning a financial return, impact investments are often privately held investments that foundations make to achieve a type or scale of social impact that they could not achieve through grantmaking alone. This includes making debt and equity investments to promote organizational scale and sustainability, leveraging capital from conventional investors, recycling charitable dollars, and aligning foundation investment strategy with mission. Impact investments can also be structured for any program area, asset class, or expected financial return level.

Many foundations use impact investments to deploy a greater share of their resources to advance mission and to ensure that those assets are not working at cross-purposes with mission and grant strategy.

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As an investment approach, impact investing is gaining acceptance as prudent for both risk management and generating attractive long-term returns. Despite this potential, it is not a magic bullet or an end in itself. It is a means to greater impact and a complement to effective grantmaking and other philanthropic activity. Success requires planning, new team structures, traditional financial investment skills, and social metrics.

This sector is developing rapidly and delivering important financial and social results; however, it remains young. Foundations are actively involved in the field's continued evolution, through both their mission investing and also grants and commissions for continued field development, including trade associations, financial and social performance tracking, and new investment product development.

Many terms are used to describe the practice of impact investing, reflecting the field's continued evolution. Widely used terms include *social investing*, as well as *mission-* and *program-related investing*.

Effective impact investing strategies and implementation plans call upon investment, financial, and program professionals within foundations to work together. They also create significant opportunity to collaborate and co-invest with external funders and other investors whose program, sectoral, or geographic interests present mutual interests. This can include foundations focused on community development, education, and the environment, as well as place-based funders such as community foundations. It can also include faith-based investors, health systems, banks, insurance companies, pension funds, and government agencies that share health funders' interest in building healthy communities, and that often bring extensive mission investing experience.

Realizing the promise of impact investing at a scale that addresses the needs of underserved communities and people throughout the nation will require significant additional capital to be mobilized. Collaboration among funders and other stakeholders can bring such resources to bear. Collaboration will also advance the art of impact investing, accelerate learning, and lower transaction costs and risks.

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INTRODUCTION

Impact investing by foundations is part of a growing global, social investment industry of institutional and individual investors that incorporate environmental, social, and governance criteria into investment decisionmaking. The approach is gaining acceptance as prudent in terms of risk management and generating attractive, long-term returns. It is a way for foundations, whose resources are often inadequate to achieve their aims and meet society's needs, to leverage resources as fully as possible, giving them tremendous power to shape, accelerate, and scale their desired results.

With $5 trillion in publicly traded and privately held assets under management worldwide, the growth and performance of the social investment industry are among the factors driving health funders' increasing interest in this type of investing. Other factors include:

- ***Traditional grants are generally insufficient*** – As high-performing, nonprofit organizations focus on growth and sustainability, they need more financial support than health funders can offer through traditional grants.
- ***New partners in social change are emerging*** – Among these partners are mission-driven, for-profit businesses that capitalize growth through equity investment, a type of investing not in foundations' traditional funding toolkit.
- ***The Internet is accelerating the growth of social sector organizations and financing intermediaries*** – It enables capital aggregation and impact reporting. For example, via the Internet, Kiva aggregates lending capital from individuals and makes microloans to entrepreneurs worldwide, and the Microfinance Information Exchange offers data services, analysis, and research on institutions that provide financial services to poor people in the United States and abroad.[1]

TABLE 1. IMPACT INVESTING IN THE CONTEXT OF SOCIAL INVESTING

Definition of impact investing: proactive financial investments that further a foundation's mission and recover the principal invested or earn a financial return (adapted from Kramer and Cooch 2007). Often, these are privately held investments. They can be in any asset class or have any expected level of return.

Feature	Active Ownership		Proactive Investing
	Screening	**Shareholder Activism**	**Impact Investing**
Purpose	• Align with mission • Avoid socially irresponsible companies, seek responsible companies	• Align with and drive mission • Influence corporate behavior	• Drive mission • Finance proof of concept, scaling, sustainability; leverage commercial investors
Typical assets	Endowment	Endowment	Program or endowment
Securities	Publicly traded	Publicly traded	Often privately held
Target return	Market-rate	Market-rate	Range of expected return levels, including market-rate and below-market-rate
Asset classes	Mostly stocks (public equities)	Mostly stocks	Debt, private equity, deposits, guarantees, and real assets

Source: Author.

[1] See http://www.kiva.org and http://www.themix.org.

➤ ***Impact investing is proving itself*** – Financial and social performance is holding up well compared to conventional alternatives, showing that fiduciary responsibility can be consistent with investment strategies that incorporate social and environmental criteria.[2]

➤ ***Health care policy and practice are shifting focus from disease treatment to health promotion*** – This creates opportunities for investments in a range of innovations.

➤ ***Health reform could significantly increase access to health care*** – To make this and other potential benefits a reality will require significant investment by the private sector.

Impact investments can be structured for any theme (program area or sector), asset class (equity, debt, deposits, guarantees, real assets), or expected level of financial return. Importantly, however, impact investments are not a magic bullet or an end unto themselves; rather, they complement effective grantmaking and other philanthropic activity. To be successful, impact investing requires planning, new team structures, traditional financial investing skills, and social metrics. And while the impact investing sector is developing rapidly and delivering significant financial and social results, it is still young. Foundations are actively involved in the field's continuing evolution through impact investing and grantmaking for trade associations, financial and social performance research, and the development of new investment products.

This guide:

- introduces impact investing – what it is and how it can help health funders leverage their financial and other philanthropic assets to improve health care, health coverage, and healthy community, including health equity;
- explains how such investments can help the nation achieve better value for its health care expenditures; and
- illustrates the significant shared goals and opportunities for collaboration between health funders and other funders and investors. Their investments in community development, education, the alleviation of

HEALTH EQUITY: HIGH-QUALITY, LONGER LIVES FOR ALL PEOPLE

According to the U.S. Department of Health and Human Services (HHS) and the Centers for Disease Control and Prevention (CDC), "Health equity…as understood in public health literature and practice, is when everyone has the opportunity to 'attain their full health potential' and no one is 'disadvantaged from achieving this potential because of their social position or other socially determined circumstance'" (CDC 2010a).

HHS (2008) has four goals in its Healthy People 2020 plan:

1. Attain high-quality, longer lives free of preventable disease, disability, injury, and premature death.
2. Achieve health equity, eliminate disparities, and improve the health of all groups.
3. Create social and physical environments that promote good health for all.
4. Promote quality of life, healthy development, and healthy behaviors through all life stages.

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[2] See also PricewaterhouseCoopers, "Environmental, Social and Governance Issues Create Potential Legal Liabilities," <http://www.pwc.com/gx/en/asset-management/assets/pdf/AMN0909_15.pdf>, September 2009; and United Nations Environment Programme Finance Initiative, "Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment," <http://www.unemg.org/LinkClick.aspx?fileticket=st4SBzmLTjI%3D&tabid=2895&language=en-US>, July 2009.

poverty, and environmental sustainability not only help improve the nation's health, but also serve as models for others.

There are four main sections in the guide: Impact Investing Language and Practices; Planning and Executing an Impact Investing Program; Impact Investing in Action – profiles of impact investments that are advancing solutions in health care, health coverage, and healthy community; and Conclusion and Next Steps. Appendices include a glossary, a list of additional resources, and an overview of relevant regulatory issues for foundations.

"Building a healthier nation will require substantial collaboration among leaders across all sectors, including some – for example, leaders in child care, education, housing, urban planning, and transportation – who may not fully comprehend the importance of their roles in improving health."

– Beyond Health Care: New Directions to a Healthier America. Recommendations from the Robert Wood Johnson Foundation Commission to Build a Healthier America

The impact investment profiles are only illustrative. They are not endorsements or recommendations to invest, nor do they begin to describe the range of qualified organizations and initiatives nationwide that might be important investment opportunities for funders. Health funders should investigate potential investment opportunities in their relevant program areas and geographies, and undertake rigorous financial and social due diligence before making investment decisions.

IMPACT INVESTING AND SUSTAINABILITY

Among the promises of impact investing is the expectation that it can help organizations in the social sector – nonprofits, for-profits, hybrids, or cooperatives – achieve sustainability and scale. For example, it can bridge a shortfall in revenues from government and private sources, and provide funding for expansion.

Sustainability ultimately depends on a reliable revenue stream – government reimbursement, private fees, or reliable contributions. The Nonprofit Finance Fund and other mission-driven financing entities have found that effective, sustainable nonprofit organizations seldom cover all of their operating costs through fees. Instead, as part of their organizational growth, they create development units whose purpose is to generate contributions as a permanent source of revenue. For organizations that serve vulnerable populations, the development function – including raising capital for expansion – can be particularly challenging because, unlike a major university or cultural organization, they do not have easy access to an affluent donor base.

While sustainability is an important goal for most social sector organizations, scaling does not always add value. A church soup kitchen that meets local needs might not want to expand, yet it may benefit from participation in networks with other soup kitchens and related organizations, such as food banks – in effect, becoming part of a scaling of the food security sector. Similarly, to maintain a small carbon footprint, sustainable agriculture organizations that choose to be local may participate in networks.

IMPACT INVESTING LANGUAGE AND PRACTICES

Foundations have been doing impact investing for more than 40 years, yet much of the growth in this type of investing has occurred within the last decade. Related language reflects the field's continuing evolution and the range of investors who, while having similar goals, may not frame their activities in terms of a charitable mission.

LANGUAGE

For purposes of this guide, impact investments are defined as proactive financial investments that advance a foundation's mission while recovering principal invested or earning a financial return (adapted from Kramer and Cooch 2007). The investments often are privately rather than publicly held. They can be structured for any program area or sector, and for any asset class, such as equity, debt, deposits, guarantees, or real assets (land, buildings, and commodities).

Program-related investments (PRIs) are a special category of impact investments. The Tax Code of 1969 defines private foundation PRIs as investments for which:

- the primary purpose is to accomplish one or more of the foundation's exempt purposes;
- no significant purpose is the production of income or appreciation of property; and
- no purpose is influencing legislation or taking part in political campaigns on behalf of candidates (IRS 2010a).

Examples of PRIs are investments in nonprofit housing projects for low-income people, low-interest loans to small businesses owned by members of economically disadvantaged groups that do not have ready access to commercial loans, and investments in nonprofit organizations that combat community deterioration (IRS 2010a). Although PRIs are often described as investments that carry a lower rate of financial return than a conventional investor would accept for an investment of similar risk, they can, in fact, generate strong returns. Investments by private foundations in for-profit, as well as nonprofit, organizations can be

MOTIVATIONS FOR IMPACT INVESTING

Foundations use this type of investing to:

- proactively extend their impact;
- recycle philanthropic dollars;
- promote the scale and sustainability of investees;
- engage new tools and partners in social change, including mission-driven, for-profit businesses that seek equity investment to spur growth;
- leverage capital market resources that significantly exceed available philanthropic resources; and
- align their investment strategy with their mission and values.

They can further align their assets and mission through "active ownership" of traded securities. This includes shareholder activism (voting proxies or engaging management to encourage social and environmental responsibility) and screening (avoiding holdings in companies whose practices are irresponsible and seeking holdings in companies whose practices are responsible or best in class).

qualifying PRIs as long as the use of proceeds is charitable and the foundations exercise expenditure responsibility – that is, they document and report the charitable use of proceeds for a grant or PRI to an entity that is not a 501(c)(3) public charity.[3] (See Appendix A: Glossary and Appendix E: Regulatory Considerations for Impact Investing by Foundations.)

The Tax Code defines PRIs only for private foundations, although all types of foundations have used similar techniques and appropriated the related terminology. The tax benefits of PRIs for private foundations go above and beyond the usefulness of these investments for carrying out charitable intent:

- ***Distribution requirement*** – Private foundations can count qualifying PRIs toward their 5 percent distribution requirement in the year they are disbursed, and can treat PRIs as charitable-use assets while they are outstanding – in other words, not include them when calculating the 5 percent requirement.
- ***Funds for recycling*** – Repaid PRIs are added dollar for dollar to the distribution requirement in the year received, which makes it possible to recycle charitable funds into new PRIs or other qualifying distributions.
- ***Income and losses*** – The income from PRIs is treated as investment income, but a PRI that defaults can be treated as a grant.
- ***Exclusions*** – Qualifying PRIs are excluded from tax regulations that govern jeopardizing investment and excess business holdings (see Appendix E).

Mission-related investments (MRIs), which Internal Revenue Service(IRS) regulations do not define for foundations, are generally those that have market-rate expected returns on a risk-adjusted basis. Although some foundations use “MRI” to refer to impact investments across the entire financial return spectrum, most use this term of art to describe investments that meet the fiduciary guidelines for a foundation’s investment of endowment assets, or “other 95 percent,” that deliver social and financial benefits (“double bottom line”) or social, environmental, and financial benefits (“triple bottom line”).

Table 2 summarizes the differences between PRIs and MRIs.

TABLE 2. PROGRAM-RELATED VERSUS MISSION-RELATED IMPACT INVESTMENTS

PRI	MRI
• A regulatory term • The Tax Code of 1969 defines PRI as a private foundation investment of any asset class in any type of organization for which: 1. The primary purpose is to accomplish one or more of the foundation’s charitable, religious, scientific, literary, educational, other exempt purposes. 2. No significant purpose is production of income or appreciation of property. 3. No purpose is to influence legislation (lobby) or take part in political campaigns on behalf of candidates.	• A term of art whose definition varies • Foundations typically define MRI as an investment of any asset class in any type of organization that has a market-rate expected return on a risk-adjusted basis and that advances a mission. • Often described as double-bottom-line investing (social and financial returns) or triple-bottom-line investing (social, environmental, and financial returns). • Generally refers to investments of the endowment, or “other 95 percent” (excluding the 5 percent of assets given away under the distribution requirement).

Source: Author and IRS 2010a.

[3] See also IRS, “Grants to Organizations,” http://www.irs.gov/charities/foundations/article/0,,id=137611,00.html; and IRS, “Expenditure Responsibility,” <http://www.irs.gov/charities/foundations/article/0,,id=137613,00.html>, 2010.

PRACTICES

Conventional investment discipline – applying financial rigor to the sourcing, due diligence, structuring, closing, and monitoring of investments across asset classes – is a guiding principle in prudent impact investing. This section describes how foundations establish impact investing criteria, construct and monitor a portfolio, and manage the investing process.

Foundations generally apply an investment thesis and a social thesis to impact investing. The investment thesis describes how an investment will be repaid and/or generate a return, while the social thesis describes the impact, influence, and leverage an investment will have or create.[4] The art and science of effective impact investing have much in common with effective grantmaking, particularly the need to identify qualified management and value-added social innovation. However, impact investing also requires an ability to identify, structure, document, and manage investments in order to get repaid, typically with some earnings.

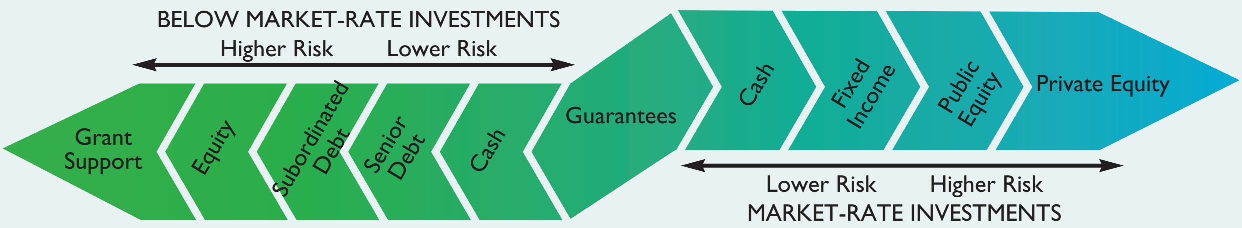
Traditional investors often describe repayment as a return *of* principal (the original amount invested) and a return *on* principal (interest, dividends, or capital appreciation earned, net of fees). For programmatic reasons, impact investors may choose to make PRIs that carry below-market-rate expected returns *on* principal. But they usually apply traditional investment discipline to determine both the likely return *of* principal and the return *on* principal for each impact investment, be it a PRI or MRI.

To repay an investment, the organization or project that received it must have a revenue stream or other repayment source. This is typically in the form of predictable earned revenue (interest, dividends, or fees), but it may include reliable contribution pledges. Repayment could also come through refinancing, as when a permanent mortgage refinances a construction loan; through capital appreciation; or, in the case of a for-profit entity, through its sale or an initial public offering of stock.

Grants are still the critical source of funds for countless charitable activities that cannot and should not be expected to repay. Early on, a foundation's impact investing program develops the capacity to determine which potential investments are likely to be able to repay.

The impact investing program at the private F.B. Heron Foundation is a model for many other foundations (Figure 1 and Appendix B: Impact Investing Financial Performance). Heron has extended PRIs to about 20 percent of its grantees, and 67 percent of its PRI borrowers are current or former grantees (Ragin 2010). For most foundations, the proportion of grantees that have also received PRIs is far less. The continuum of MRIs at Heron generally reflects the asset classes across which foundations make impact investments.[5] As in conventional investing, the asset classes entail different levels of risk and expected return. Asset classes with

FIGURE 1. F.B. HERON FOUNDATION CONTINUUM OF MISSION-RELATED INVESTMENTS



Source: F.B. Heron Foundation.

[4] Impact, influence, and leverage are impact investment social criteria formulated by The Annie E. Casey Foundation.

[5] For Heron, "mission-related investment" means the full spectrum of below-market-rate and market-rate investments that advance a mission. This guide refers to that full spectrum as "impact investing."

STRUCTURING INVESTMENTS: TAPPING ASSET CLASSES FOR SAFETY AND SOCIAL CHANGE

Expected risk-return characteristics vary among asset classes, such as private equity, public equities, debt, deposits (cash or cash equivalents), and real assets. In addition, different asset classes are expected to perform better in the market at different times. Traditional investors build portfolios whose expected returns are not correlated; the goal is to have holdings that perform well or poorly at different times, reducing overall risk.

In impact investing, each asset class has added significance as a financing tool. Part of the art of such investing is matching the appropriate investment tool – an asset class or structure – to a particular financing need.

The type and phase of the entity or project being financed largely drive this process.

Nonprofits are typically debt financed, as they cannot be owned by private investors or issue equity shares (ownership stakes). They may create revenue-generating social enterprises or for-profit subsidiaries that attract equity investment. Or they may affiliate with for-profit entities in so-called hybrid organizations. In hybrids, the nonprofit seeks grant funding for activities that need to be subsidized, and the for-profit issues equity or debt to investors to capitalize a social-purpose business.

Variations in investment structures and expected, risk-adjusted return accommodate both the phase of the entity or project being financed, and investors' differing objectives and risk tolerance. For example, investors may want to spur innovation or they may prefer to support replication of proven concepts.

Broad applications of asset class for impact investing include:

- ***Debt or loan*** – an amount owed under a legally binding contract that states payment terms for principal and interest. Debt or loan financing is generally appropriate for nonprofit and for-profit entities that have a reliable revenue stream or repayment source. Senior debt has repayment priority over subordinated ("junior") debt, which therefore entails greater risk. Debt can be structured to be convertible into equity or have equity features that make it useful for early-stage and growth businesses. One such feature is payment of royalties on sales: the payments occur when sales occur, in contrast to regular interest payments, which must be made whether or not an entity is earning revenue.
- ***Fixed-income securities (bonds)*** – a form of debt requiring fixed periodic payments of interest and principal. Bonds are often structured through the purchase or securitization of existing debt, such as a pool of bank mortgages, which gives the original lender liquidity (cash) and the capacity to make new loans.
- ***Guarantees*** – contingent obligations to lend, offered as an incentive for third-party lenders to extend credit. If the borrower defaults, the guarantor repays the lender and seeks to collect the debt from the borrower. Under this arrangement, impact investors can pledge existing assets for the guarantee, thereby mobilizing credit without liquidating their current holdings or disbursing cash (unless the guarantee is called).
- ***Deposits*** – cash placed in banks and credit unions, which generally carry federal deposit insurance. Deposits are a form of debt that the depository must repay when the depositor makes a withdrawal. Deposited, insured funds fuel lending to households, small businesses, and nonprofits. They also support depositories that offer safe financial services, often to low- to moderate-income clients who otherwise would have to depend on local predatory providers of such services.
- ***Private equity (including venture capital)*** – investment in for-profit companies that are not publicly traded. It commonly features equity capital – an ownership stake in a company's earnings and assets.

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Without the legal repayment obligation of debt, equity investments carry higher risk and a higher expected return than debt. They are generally an appropriate asset class or structure for an early-stage, high-growth, for-profit business. An alternative is convertible or hybrid forms of debt, such as debt with repayment contingent on revenue. Over a period of years, a successful venture typically progresses through stages (seed, early, growth, mezzanine [see Glossary], and buyout and/or initial public offering), raising additional capital during each one. A key issue is always whether, when, and how an exit occurs. Like all investors, impact investors welcome a profitable exit.

Impact investors, however, may be willing to take less profit or delay the exit until a suitable exit strategy is identified so that the growing company can continue to generate social impact – for example, by creating local jobs with benefits, establishing sustainable business practices, or providing charity care. Social entrepreneurs highly value impact investors for the commitment they bring to these crucial matters.

- ***Real assets (physical rather than financial assets, such as real estate – land or buildings – and precious metals or timber)*** – other asset classes that foundations may own and manage sustainably or use for charitable purposes. For example, they may use real estate to house local nonprofit organizations.
- ***Recoverable grants*** – a rare but useful structure some foundations and mission-driven intermediaries use to capitalize ventures that may be too risky to repay a PRI. In these cases, the odds of repayment are uncertain due to factors such as an extremely undeveloped marketplace. Rather than undertake full PRI due diligence and documentation, the foundation gives a grantee a grant letter establishing milestones that trigger repayment. To encourage repayment, the foundation may offer the possibility of larger, follow-on PRIs.
- ***Forgivable loans*** – similar to recoverable grants, for situations in which repayment is not predictable. For example, a forgivable real estate loan might be appropriate if the feasibility of a project cannot be fully assessed in advance. A foundation may also forgive a loan to reward outstanding social performance. It may convert some or all of a loan to equity or to a grant when, for instance, the borrower creates a significant number of effective small businesses that generate sales and tax revenue in a struggling local economy. Lenders sometimes use this strategy to forgive the student loans of professionals who enter public service. The strategy is not recommended as a response to weak financial or social performance.

higher risk appear at each end of the continuum and those with lower risk appear toward the center; guarantees are a special case because the risk level varies from deal to deal. Heron's continuum, however, does not reflect certain impact investing structures that some foundations use – for example, real assets (land, buildings, and commodities; the continuum includes recoverable grants within grant support).

Different foundations have different program goals and risk tolerance when it comes to impact investing. Some construct a portfolio diversified across asset classes, tapping specialized management expertise that reflects such diversity. These foundations typically seek to meet or exceed benchmarks for each asset class when they make market-rate MRIs, consistent with standard practice for traditional investment portfolios. Among foundations that make PRIs with an expected below-market-rate of return, some use the long-term rate of inflation plus 1 percent as their targeted benchmark. Others target discounts from current market rates of return for investments in the same asset class and with the same risk profile.

Some foundations set aside a small portion of assets – perhaps 1 percent to 3 percent – as a "carve-out" for impact investing. Instead of fully diversifying these investments across asset classes, they may focus on a particular asset class or, irrespective of class, select impact investments opportunistically that are compelling from a mission standpoint. Depending on the specific circumstances in each case, a foundation often has the option to structure its investment as a PRI or MRI.

Foundations can invest directly in an organization or project, or place their investment via an intermediary, fund, or fund of funds.[6] These options have different advantages and trade-offs. Successful direct investing requires time and skills that must be available in-house or retained. The impact investing arena has generated a growing class of specialized intermediaries and funds, including community development financial institutions (CDFIs) (see Glossary).

Foundations in the United States were among the earliest practitioners of impact investing, long before the rise of the global social investing industry. More than 40 years ago, they started to invest, on concessionary terms, in grantees that could not obtain financing elsewhere. Today, the global social investing industry has about $5 trillion in privately held and publicly traded assets under management, $2.71 trillion of which are in the United States (Social Investment Forum 2007). Impact investors, like investors in the broader social investment marketplace, now have a choice of themes or program areas, such as health, environment, education, or community development; asset classes, such as equity, debt, or cash deposits; and expected financial returns.

Much of the growth in impact investing has occurred within the last decade. Numerous reports have demonstrated that impact investors need not sacrifice financial returns – indeed, they may stabilize returns – by incorporating social, environmental, and governance criteria into investment decisionmaking (Social Investment Forum 2009). In part because impact investments, as narrowly defined, are largely a privately held subset of social investments, public information on their financial performance is limited. But the available data, including those from the Heron Foundation, corroborate this finding.

Standard measures of financial performance in the conventional investing arena are return on assets, equity, or investment. Measures of social outcomes in impact investing, on the other hand, are as diverse as the range of foundation missions and program areas. Consequently, systematizing or standardizing social metrics for impact investing are topics of intense discussion and research. An increasing number of foundations are creating social metrics dashboards that track outputs and help impact investors objectively determine if such investments are achieving their expected impact.

CDFIs: FOUNDATION PARTNERS IN IMPACT INVESTING

As of December 31, 2010, there were 939 certified community development financial institutions (CDFIs) operating nationwide. They included 91 regulated banks or thrifts (of which 48 were part of bank holding companies that are also CDFIs), 203 regulated credit unions, 572 loan funds, and 25 venture capital funds (Community Development Financial Institutions Fund 2011).

In fiscal year 2007, 508 of these institutions invested $5.3 billion to create economic opportunity in the form of jobs, affordable housing units, community services, and financial services for low- to moderate-income communities. These investments:

- created or maintained 34,276 jobs;
- financed the construction or renovation of 57,274 affordable housing units and 687 community facilities in economically disadvantaged communities;
- provided 15,546 responsible mortgages to first-time and other homebuyers;
- provided 14,480 alternatives to payday loans; and
- helped 7,706 low-income individuals open their first bank account (CDP Publication Committee 2007).

In the economic downturn, CDFIs have been on the forefront of rescue lending for nonprofit organizations and families at risk of foreclosure. With support from their trade associations, the institutions have also increased their loan loss reserves and proactively manage risk, which, in most cases, has resulted in stable investment performance (Opportunity Finance Network 2010).

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[6] A fund is a type of intermediary. These two terms are often used interchangeably. “Intermediary” is more common in the philanthropic context, while “fund” is more common in the conventional investing context.

PLANNING AND EXECUTING AN IMPACT INVESTING PROGRAM

A wealth of impact investing models advance health care, health coverage, and healthy community while recycling philanthropic capital and generating financial returns. Growing participation by health funders in this type of investing will unleash more assets to support successful models, foster a commitment to innovate, and generate insights on how the range of strategies can most effectively generate health benefits.

Given the range of impact investing options, funders of all types often ask: "How do we begin?"

As with any new program, an important preliminary step is to evaluate how impact investing aligns with the foundation's mission, programs, values, and resources. In practice, foundations often make initial impact investments opportunistically and incrementally build larger, more strategic programs over time. While no single step or sequence of steps is appropriate in all circumstances, foundations that launch a comprehensive impact investing program generally follow a roadmap like the one in Figure 2.

Impact investing often is introduced as part of a broad examination of how a foundation's strategy and culture can evolve to more effectively drive its mission. A planning roadmap like the one in Figure 2 helps

FIGURE 2. IMPACT INVESTING PLANNING ROADMAP

INITIAL STRATEGIC WORK

- Identify champions to drive process
- Assess landscape of impact investing opportunities
- Determine strategy based on mission, values, program
- Perform baseline assessment: Where are we now?
- Determine financial and social goals and metrics: Where are we going?
- Foster relationship between investment and program "sides" of the foundation
- Determine relation to grants portfolio
- Identify target investees and partners

IMPACT INVESTING POLICIES

Prepare investment policy or amend foundation's policy to clarify:

- Target asset classes, deal size, and funding level and source
- "Credit culture" as specified by pricing performance benchmarks, risk tolerance, collections, intermediary versus direct investing, and positioning

PROGRAM EXECUTION

Determine infrastructure – how foundation will staff, partner, or outsource:

- Internal education
- Deal sourcing
- Financial due diligence
- Legal structuring and documentation
- Deal negotiating and closing
- Portfolio monitoring and reporting

ONGOING STRATEGIC AND INSTITUTIONAL MANAGEMENT

Ongoing strategic management:

- Human resources and systems for financial performance, social impact, innovation, leverage, collaboration, evaluation, learning, reporting, and communication

Source: Adapted from Bernholz and Richter 2009

PRIs IN PRACTICE

At the Endowment for Health, a range of key people have participated in designing and executing the PRI program, according to Jeanne C. Ryer, program director. The working group that designed it included members of the board, program committee, investment committee, advisory council, and staff. For operations, a group consisting of members of the board's executive committee, and chairpersons of the program and investment committees, recommends any policy changes to the full board.

"As soon as we started considering real loans, we went from theoretical conversation to actual," Ryer said. "That process caused us to change some of our guidelines. Language is a challenge, but less so as we have moved through the past year. The biggest challenges are talking about risk. Risk means different things to people with investment, finance, and program perspectives."

ensure that impact investing contributes to the organization's overall strategic objectives and takes into account its culture and risk management. A roadmap can also help foundations anticipate and work around potential roadblocks. The section below describes steps in the planning process and issues that may arise.

INITIAL STRATEGIC WORK

➤ ***Identify champions to build a strategy*** – Impact investing strategies require approval by the board, which may also be responsible for approving specific investments. It is important that a foundation's planning team include both finance and program representatives, and members with insight on vetting new strategies at the board level. The team should be small enough to work expeditiously. However, input from all areas of the foundation that will eventually contribute to execution of the impact investing program yields an effective program and fosters buy-in across the organization.

➤ ***Foster a relationship between finance and program staff*** – An impact investing program can help everyone at a foundation better understand how capital markets affect investment performance and social and environmental conditions. Ongoing dialogue between finance and program staff will increase the odds of impact investing success by ensuring that investment strategies take the dynamics of both capital markets and communities into account.

At many foundations, investment and finance functions are in one silo and program activities in another. Other foundations, particularly the smaller ones, outsource the investment function. In addition to having an interest in philanthropic aims, many investment and finance officers who work at or for foundations believe that markets can serve the public good. These outlooks, along with conventional investment discipline, are extremely helpful as foundations explore the fit between impact investing strategies and their institutions.

Investment managers and, occasionally, board members may have rigid views on whether and how impact investing should proceed. This can cause tensions and/or delays if a foundation is trying to incorporate best practices or insights from the impact investing field into its strategy.

A foundation may be able to overcome such hurdles by co-investing with more experienced foundations and like-minded investors. Trusted advisers can also help advocate proven approaches to impact investing. PRIs may be an ideal entry point if staff and the board feel more comfortable using program resources to experiment with new investment strategies. Occasionally, attrition of dissenting parties is necessary for a program to move forward.

➤ ***Assess the impact investing landscape*** – This step examines the range and types of investment opportunities and identifies potential co-investors and partners. It also fosters an internal dialogue about risk tolerance.

As a foundation gains a better sense of the investment opportunities, an important consideration is whether it will make PRIs, market-rate MRIs, or both.

Another critical decision is how the foundation will fund its impact investments. While foundations may eventually seek to invest all of their assets in ways that drive mission, most begin with a carve-out of some type. Many private foundations fund PRIs through the program budget. Community foundations may fund these investments with unrestricted or program funds, or through special arrangements with supporting organizations, donor-advised funds, or agency endowments (see Appendix E). Some foundations begin with an allocation from the endowment for market-rate MRIs because they do not want to allocate endowment or program funds for PRIs; they hope that by demonstrating the earnings potential of MRIs, they can allocate more endowment assets to them over time.

The California Endowment and the W.K. Kellogg Foundation led their impact investment programs with market-rate MRIs. Each is testing the strategy with a willingness to allocate increasing portions of their endowments, if market returns prove reliable. They have also seen interesting investment opportunities that would not qualify as market-rate investments; The California Endowment started a PRI program and Kellogg is considering doing so.

➤ ***Develop a proposed strategy based on mission, values, and programs*** – The planning team will likely filter a universe of possible investments to arrive at a proposed investment strategy that prioritizes the options best suited to accelerate, broaden, or deepen the impact of the foundation's mission, values, and other philanthropic programs.

Foundations often lead their strategic use of impact investing from one program area. For example, the California HealthCare Foundation (2010) has three key program areas: Innovations for the Underserved, Better Chronic Disease Care, and Market and Policy Monitor. It recently launched a PRI strategy focused on Innovations for the Underserved – namely, to scale technological innovations that improve health care delivery in the safety net. Building on staff's technological innovation expertise, the foundation is working with Stanford Biodesign and other partners on prototypes that could have broad uptake, hopefully boosting the odds that vulnerable populations will be better served.

➤ ***Perform a baseline assessment: "Where are we now?"*** – A baseline assessment enables a foundation to identify and begin tracking current holdings that qualify as impact investments. It also identifies investments that may conflict with the foundation's mission, values, and program, and that could be targets for shareholder activism or eventual divestment.

Some funders do not consider current holdings to be impact investments if the holdings were not originally acquired with the intention of advancing the foundation's mission. However, deciding to retain and more closely track such investments in terms of their social impact arguably reflects that intention.

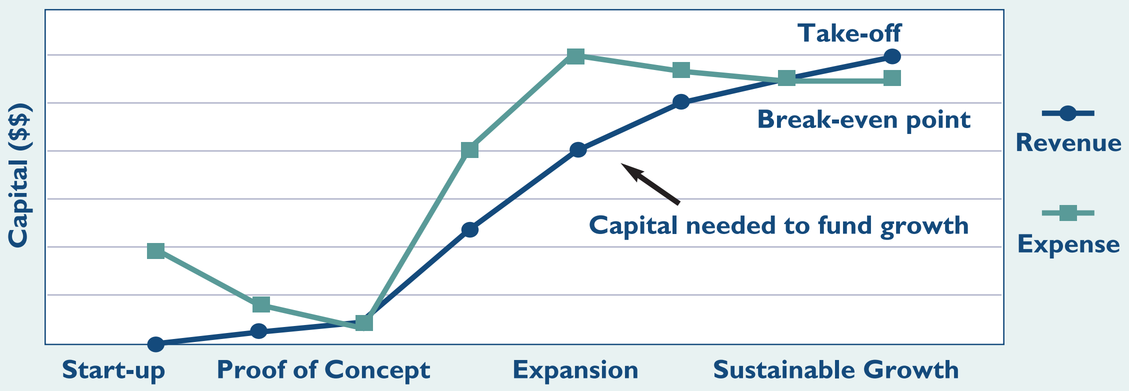
Shareholder activism is a type of impact investing that leverages existing holdings, generally publicly traded securities. The Nathan Cummings Foundation has been a leader in this regard: it urges management at companies whose stock it owns to improve corporate responsibility in areas that bear on the

SCALING MODELS

Nonprofit and for-profit organizations typically have early operating losses as they establish proof of concept for their products or services. Then, to scale a successful model, they need substantial capital infusions in the form of grants, loans, or equity investment.

PRIs can help support social sector organizations through the early growth stages and, subsequently, when they introduce new products or expand their markets. Organizations in later stages may be able to qualify for market-rate MRI investments. As part of their market-rate, alternative asset allocation for venture capital, some foundations also make MRIs in the early stages of for-profit ventures.

FIGURE 3. ORGANIZATIONAL GROWTH CAPITAL NEEDS



Source: Overholser 2010

nation's health. These areas include environmental sustainability, disclosure of carbon footprint, health care policy, and political contributions (the purpose of which may be to obstruct consumer-friendly regulation of the pharmaceutical or other industries).

➤ ***Set financial and social goals, and determine metrics: "Where are we going?"*** – This step is critical for building consensus within a foundation as to how it will measure impact investing success. The foundation can, and generally will, adjust its investing program over time, but making adjustments with articulated goals in mind is better than discovering several years later that there has been internal disagreement about the program's goals, performance, and value.

The Annie E. Casey Foundation and the W.K. Kellogg Foundation created dashboards that track outputs from impact investments, such as child care slots, charter school slots, or jobs created; affordable housing units developed; and small businesses financed. Extensive research and discussion are under way throughout the impact investing sector regarding how best to track and report social impact. It is an important issue if, for example, investors accept a below-market-rate of return and want to justify why they chose this type of an investment instead of a conventional type, or why they tapped the program budget to make an investment instead of a grant. Social metrics are also useful when private foundations, in fulfilling their expenditure responsibility, must demonstrate the charitable purpose of PRIs in for-profit entities. Finally, strong social metrics along with strong financial returns on market-rate MRIs help make the case for increasing a foundation's impact investing allocations.

➤ ***Determine impact investing's relationship to the grants portfolio*** – A key goal of impact investing at most foundations is to reinforce grantmaking. To ensure this, some foundations limit their impact investing to PRIs for qualifying current or former grantees. In addition, many foundations complement their PRIs with grants. For example, a grant could fund the marketing of a new program the PRI will finance. Or, also in the case of PRIs, a grant could enable a CDFI or other financial intermediary to build its loan loss reserves. Some foundations also view investing in grantees as a risk management strategy: typically, a foundation has some knowledge of the strengths and weaknesses of its grantees, who in turn want to preserve their relationship with the foundation so they can receive additional grants in the future. Early in its PRI program, the Heron Foundation reviewed its grants portfolio to see which grantees might be able to support a PRI.

➤ ***Prioritize investee and investment partner choices*** – After a foundation has crafted an impact investing strategy, it prioritizes the investment opportunities in terms of those that are most qualified from both a mission and financial standpoint. Simultaneously, the foundation typically considers potential investment

AN IMPACT INVESTMENT WITH ENVIRONMENTAL PAYOFFS

The Mary Black Foundation in Spartanburg, South Carolina, refurbished an empty building between beautiful old structures downtown. The result was a bike-friendly, free conference center for the city's nonprofit organizations and a new, centrally located office for the foundation. For $1 a year, a nonprofit grantee that campaigns to prevent teen pregnancy also leased space in the building, which won green building certification under the Leadership in Energy and Environmental Design (LEED) system.

"No one would call Mary Black Foundation an environmental grantmaker, but the board approved a higher investment for the LEED certification in a building that supports our commitment to active living with bike racks and showers, and the project involved the foundation as a player in the revitalization of Spartanburg's downtown," said Philip Belcher, the foundation's president. "To me, this is an impact investment."

partners through or with which it will execute investments. These could be specialized financial intermediaries or funds, or strategic co-investors.

Impact investing fosters a variety of new partnerships. Partners may include:

- CDFIs and similar intermediaries;
- banks motivated by the Community Reinvestment Act (see Glossary);
- local and national faith-based investors;
- hospitals and universities;
- pension and insurance funds that want to strengthen communities;
- socially responsible corporations;
- governments;
- individual investors seeking both social and financial returns; and
- representative community organizations, leaders, and residents whose participation and counsel are necessary to ensure effective initiatives.

IMPACT INVESTING POLICIES

Some foundations begin impact investing in response to a grantee request or other opportunity, such as the launch of a multifunder pool to respond to emergency credit needs. Others consider which investments they could make that might add the most value in the communities they serve, without being constrained by a formula, such as asset allocation, that dictates the types of investments. In any case, at some point in planning or executing an impact investing program, many foundations craft an investment policy statement or amend an existing statement to reflect this initiative. The new or amended statement describes the scope of the program, resource allocations, due diligence, risk management, governance, and other matters.

Scope includes whether the foundation will make PRIs, MRIs, or both, plus the related financial performance benchmarks; whether it will invest in all asset classes or just a few, plus the allocation strategy; whether the investments will be connected to one or multiple program areas, plus the budget allocation; and whether the foundation will make impact investments (particularly PRIs) only in grantees and, if so, whether the funds will come from its budget, endowment, or a combination of the two. Some foundations set aside a portion of their endowment for below-market-rate investments – even if these qualify as PRIs – to minimize or avoid tapping into the grants budget. Such investments should be documented as PRIs in order to make clear their charitable intent; this is particularly true for private foundations, which are subject to jeopardizing investment regulations for investments that are not qualified as PRIs (see Appendix E).

The due diligence section of the policy statement addresses the criteria and process for rigorous financial and social analyses of potential investments. Most impact investing by foundations has been in the form of term loans that specify the borrower's legal obligations regarding the amount to be repaid, the timeframe for repayment, and the interest rate. A foundation's equity investments, in contrast, are ownership claims to an investee's business or to a fund that reinvests in companies. Such investments typically do not specify a maturity date or dividend rate, and they require additional negotiation over when and how the foundation may exit.

In the due diligence process, some foundations also consider investees' diversity at all levels. The W.K. Kellogg Foundation, for example, advocates racial and gender equity by investees and investment managers. The California Public Employees' Retirement System and the California State Teachers' Retirement System, two of the world's largest impact investors and co-investors with foundations in some funds, also consider diversity. They cosponsored the Emerging Manager & Financial Service Provider Database, which encompasses more than 700 investment firms across asset classes. These firms include money managers, private equity funds, private equity funds of funds, private real estate investment firms and trusts, hedge funds, hedge funds of funds, consultants, broker dealers, and research firms, many of which invest specifically in minority-owned businesses or underserved communities of color.[7]

TAKING RISKS MEANS TAKING LOSSES

Despite the strength of due diligence, external factors can negatively affect expected outcomes, or unanticipated borrower problems may emerge. Inevitably, some investments will go bad. In the first four decades of impact investing, an estimated 4 percent of loans were lost, not including outliers from the very earliest years (Kramer and Cooch 2007).

Loan workouts – getting delinquent loan payments back on track – are challenging. The foundation must decide how aggressive it wants to be in collecting payment. No foundation wants to end up on the front page of the local (or worse, national) newspaper accused of shutting down a well-recognized nonprofit or social agency. At the same time, impact investors must enforce some level of collections to ensure that all borrowing organizations take their repayment obligations seriously. To avoid this dilemma, many foundations choose not to begin impact investing or they only work through intermediaries that handle workouts.

Other issues that factor into workout and collection policies include:

- the cost and time it takes to collect on a defaulted loan, relative to the size of the loan;
- the strength and orderliness of the legal documents, such as whether the notes are signed and liens have been filed with the appropriate authorities;
- loan-loss-reserve practices; and
- the number of other investors or lenders in the deal, their cooperation, and the order in which debt is repaid (senior debt precedes subordinated debt). Maintaining a positive relationship with the borrowing organization can enable the lender to exit a loan while the organization is still operating and to realize higher collateral values. A negative relationship could force the borrower into liquidation.

Private equity and venture capital losses are managed differently. From the outset, the foundation investor or fund manager is intensely involved in seeking to maximize investment performance; he or she often serves on the board of a portfolio company and, among other oversight powers, can replace management. Equity investors expect a higher proportion of portfolio losses, but they also expect significant gains from other successful investments to more than offset these losses.

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[7] For more information, visit https://www.alturacap.com/growth.php

The risk management section of the policy statement discusses a range of issues regarding how the foundation identifies, takes, manages, and reports on risk. This includes protocols for monitoring investments and rating them in terms of risk, and whether and how the foundation will create reserves as a safeguard against potential loan losses in an MRI or PRI portfolio.

The governance section cites who has decisionmaking authority for impact investments. Authority may vary depending on the size of an investment, whether it is an MRI or PRI, and other factors. At some foundations, special impact investment or PRI committees – which generally include senior program and financial officers, and possibly members of the board investment committee – approve investments and report to the board. At foundations where program officers have individual grantmaking authority, this may apply to PRIs within established limits. In some cases, foundation presidents are the ones who approve all impact investments, based on committee recommendations.

➤ ***Create a "credit culture."*** – This term describes certain qualities of a foundation's impact investing program, such as whether the program will be active or passive and invest directly or via intermediaries. Another issue is how aggressively the foundation will collect on investments and manage troubled assets; often, a consideration is the negative publicity that may result if it forecloses on a community asset, such as a local health center or child care provider. Many foundations invest through intermediaries in part to minimize this kind of potential reputational risk.

Whether to invest directly or through intermediaries can be a significant strategic decision for foundations. The emergence of CDFIs, private equity funds, and similar intermediaries that specialize in delivering financing, financial services, and capacity building to early-stage organizations and underserved markets is one of the impact investing field's most impressive accomplishments. Foundations have been key agents in this success; many consider intermediaries to be partners who add value on multiple levels. Other foundations may prefer direct investing, perhaps because they already have or want to build strong in-house expertise. The two approaches, however, are not mutually exclusive. Foundations can create portfolios that include some intermediary and some direct investments, and they may co-invest with intermediaries.

Table 3 compares debt and equity investments; Table 4 summarizes intermediary-related considerations; and Table 5 compares direct investing with fund, fund of funds, and syndicate investing.

TABLE 3. DEBT VERSUS EQUITY

Factors	Debt	Equity
Form of investment	Foundation extends a loan with contractual terms such as interest rate, maturity, and amortization.	Foundation takes an ownership interest in a for-profit company or fund, which gives it a claim to that entity's earnings and assets.
Repayment (also called "exit" or "liquidity event")	Repayment of the loan principal at the contractually designated time: • Interest-only loans require regular interest payments but defer repayment of the principal for some period of time. • "Bullet" or "balloon" structure refers to repayment of any deferred principal when the loan matures. • In the case of fully amortizing loans, the borrower repays the principal in increments throughout the life of the loan. • Under hybrid, debt-equity structures, the borrower may pay interest as a percentage of revenues, or repay the principal upon achieving predetermined success milestones. • Convertible debt may convert to equity at a predetermined price for equity shares.	Negotiated exit: there is no contractual maturity date or exit. A company may provide liquidity to investors or funds through: • an initial public offering; • sale of the company to a larger company; • management buy-back of stock; • an employee stock ownership plan; or • a combination of the above, some of which may be partially debt-financed.
Return	Typically the contractual interest rate – for example, a loan at 7 percent interest	Consists of dividends (distributions of company earnings) plus any appreciation in the stock price, net of fees
Accountability	Representations, warranties, and covenants, which are a part of the loan agreement. For PRIs, borrowers that are not 501(c)(3) public charities must provide expenditure responsibility reporting (see Glossary and Appendix E).	A side letter (a customized agreement between an equity investor and the company or fund in which it is investing) plus expenditure responsibility reporting for PRIs in for-profit entities (see Glossary)

Source: Author.

TABLE 4. INVESTING THROUGH INTERMEDIARIES: CONSIDERATIONS FOR FOUNDATIONS

Benefits	Concerns
Intermediaries: • Catalyze impact. They serve as "wholesalers" to process large numbers of small loans or investments more efficiently than a foundation could if it were to consider each deal individually; • Engage partners who have expertise in particular fields or region – expertise that foundations cannot afford to develop; • Lower PRI risk. They achieve diversification by investing in a larger number of deals, have specialized expertise, and generally build loan loss reserves that shield investors from potential losses; and • Service or administer PRIs, which require specialized systems and ongoing attention.	In using intermediaries, foundations may: • Forfeit control and the perception of leadership ("we should be able to do this ourselves"); • Forfeit programmatic or geographic targeting; • Bear the cost of these services, although it may be less than the cost to manage investments internally. Furthermore, PRI-related costs qualify as a charitable expense; • Impose additional costs on their investees, as intermediaries generally charge higher interest rates but also provide technical assistance; • Forfeit risk-taking, as intermediaries may be risk averse due to a desire to repay investor capital; • Forfeit learning opportunities, although these may be ancillary to the foundation's core focus; • Increase the distance between themselves and impact investing; and • Relinquish some of the "wow factor" or visibility.

Sources: Author; "benefits" adapted from Ford Foundation 1991.

TABLE 5. DIRECT, FUND, FUND OF FUNDS, AND SYNDICATE INVESTING

Factors	Direct	Fund	Fund of Funds	Syndicate
Key advantage	Opportunity to leverage or build foundation skills and relationships to enhance grants with investment capital	Experienced management team for targeted or aligned sectors and/or geography	Experienced management team selects portfolio of funds with strong track records and aligned focus. Portfolio may include a range of sectors and/or business stages.	Investor groups organized by a lead investor for transactions, sectors, or geographies of mutual interest (see Glossary). Funds may organize syndicates to support their portfolio companies through all growth stages.
Key risk	Foundation may lack in-house capacity, creating greater risk and lower impact. Managing investments may require more time and be more expensive than anticipated or more expensive than the alternatives.	Qualifying fund may not exactly target a foundation's priority programs or geography.	Qualifying fund of fund holdings may offer limited relevance to a foundation's priority programs or geography.	Divergent investor priorities on specifics such as PRI versus MRI eligibility, social metrics, and geography may complicate the investment process and increase transaction costs.
Cost	High, due to staff time and opportunity cost	Like conventional investments: in the range of a 2 percent management fee plus 20 percent carry (see Glossary)	May add a fee layer for assembling portfolio of qualified funds	May add a fee or cost layer for investing in a deal that another qualified investor leads and/or manages
Social metrics	Customized	May provide detailed reporting. Foundations should document expectations in advance.	May provide detailed reporting. Foundations should document expectations in advance.	Determined on a case-by-case basis, as metrics reflect the goals of particular investors in the syndicate.
Institutional learning	High, but may include operational tasks of limited strategic value	Largely determined by the level of engagement a foundation seeks	Largely determined by the level of engagement a foundation seeks	Largely determined by the level of engagement a foundation seeks with syndicate and/or lead investor(s)

Source: Author.

If a foundation chooses to do some or all of its impact investing through intermediaries, it must then figure out how to find those that are most qualified for its investment strategy and geography. An intermediary's certification as a CDFI or its nonprofit status may suggest alignment with the foundation's mission. Neither credentials nor marketing materials alone, however, are reliable evidence of an intermediary's commitment to mission or effectiveness in executing strategy. Due diligence must evaluate these factors. Fortunately, there are many strong intermediaries and, for purposes of financial and social due diligence, excellent supports, including co-investors, advisers, training seminars for staff, and rating systems. One such system is the CDFI Assessment and Rating Service (CARS)[8] operated by the Opportunity Finance Network.

Sometimes foundations seek but cannot find a suitable intermediary. This may occur in a geographic area that lacks a vibrant development finance infrastructure or in an emerging sector that lacks specialized funds. Such a sector is sustainable agriculture, for which specialized funds are just now being created. (See "Human Development: Body" for more details.) In these instances, the foundation may approach existing, proven intermediaries and ask them to consider expanding into the desired location or sector, or perhaps create a new intermediary or fund.

Many outstanding CDFIs that began as local lenders have become regional or national lenders and remain interested in continuing to expand. Foundations can locate them through trade associations, such as the Opportunity Finance Network; government agencies, such as the CDFI Fund; and peers.

Some foundations have launched impact investing initiatives whose innovation and goals were outside the focus and experience of existing intermediaries. Examples include:

- The F.B. Heron Foundation, which started the U.S. Community Investing Index (U.S. Community Investing Index box);
- The David and Lucile Packard Foundation, which introduced the Sea Change Investment Fund, a

U.S. COMMUNITY INVESTING INDEX: PUBLIC EQUITIES THAT STRENGTHEN LOW-INCOME COMMUNITIES

The mission of the F.B. Heron Foundation in New York City is to build assets and create wealth for low-income people and communities. It found that there were relatively few social screens of publicly traded equities or shareholder resolutions directly aligned with this mission.

Consequently, Heron developed its own best-in-class screening methodology: the U.S. Community Investing Index. (USCII), managed under license by State Street Global Advisors. The index places high importance on corporate engagement in helping low-income people and communities help themselves. The foundation received assistance in this effort from an investment research firm with extensive experience in environmental assessment and quantitative modeling.

The USCII, which tracks the S&P 900, positively screens companies based on more than 20 community investing criteria, ranking sector peers on a scale of 1 to 5. The methodology weighs the criteria relative to three main categories of community investing activities: strategic alignment, 40 percent; workforce development and wealth creation, 40 percent; and community engagement and corporate philanthropy, 20 percent. Companies (excluding those related to tobacco) with a score of 2.5 or greater are eligible for the index (State Street Global Advisors 2010).

For more information, see Swack, Michael, Carsey Institute, University of New Hampshire, "Expanding Philanthropy: Mission-Related Investing at the F.B. Heron Foundation," <http://www.fbheron.org/documents/carsey_expanding_philanthropy_2009.pdf>, 2009.

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[8] For more information about CARS, visit http://www.opportunityfinance.net

venture capital fund that invests in businesses in the sustainable fishery sector (discussed in greater detail below under "Environmental Sustainability"). Years earlier, the foundation also helped create, invested in, and provided extensive operating support and guidance to the Women's Capital Corporation, an entity that aggregated capital to finance the introduction and over-the-counter marketing of Plan B, an emergency contraceptive; and

- Northwest Area Foundation, which launched Invest Northwest. This private equity fund invests in growth-stage businesses to spur job creation in rural areas of Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota, and Washington.

PROGRAM EXECUTION

For an impact investing program to succeed, all functions – investment sourcing, due diligence, negotiating and closing deals, ongoing monitoring, and performance reporting – must be reliably executed. Foundations that do not have staff to carry out these functions, which require considerable time and expertise, typically retain consultants and/or intermediaries. Those with the requisite staff use a variety of staffing models, and may shift the balance of internal and external staffing as they gain experience or deepen their commitment to impact investing.

The California Community Foundation operates as a wholesale lender, making large PRI loans and grants to leading intermediaries that relend and provide technical assistance to local nonprofits. The goal is to build a significantly stronger base of nonprofits capable of meeting Los Angeles County's community-level needs. The Barberton Foundation of Barberton, Ohio, partners with local banks and nonprofit agencies to make small business loans and affordable home mortgages in its low- to moderate-income community.

The Marin County Foundation operates an in-house loan fund, which an experienced lender manages, to monitor both the loans and grants it makes to nonprofits. The Abell Foundation manages much of its private equity investing in-house, but it retains experts to perform due diligence on new deals. Because these experts are knowledgeable about particular sectors, they can assess how novel and valuable a new product may be.

LEARNING FROM PEERS

Numerous foundations have published books and articles, and prepared Web sites, to share helpful information about their impact investing experience. Impact investing groups also provide a variety of resources. See Appendix C.

An increasing number of foundations are hiring impact investing staff, often a full-time position that helps the program side source and develop deals and that applies conventional investment rigor. Examples include the F.B. Heron Foundation, The Annie E. Casey Foundation, The Kresge Foundation, The Colorado Health Foundation, and The California Endowment. The W.K. Kellogg Foundation assigned a senior executive to lead its impact investing program. Generally, foundations with longtime impact investing programs also have staff or external sources to monitor investments quarterly. The Casey and Ford foundations use a mix of in-house and external consultants for due diligence and portfolio monitoring. Growing numbers and types of consultants, investment advisers, attorneys, and accountants serve foundations' impact investing needs. More for Mission and the PRI Makers Network (see Appendix C: Additional Resources) maintain lists of these resources, which include firms that specialize in impact investing and larger conventional firms that offer impact investing support.

As more foundations begin to use impact investing, a trend is co-investment by multiple foundations – and like-minded investors – in the same opportunities. One benefit of these arrangements is that due diligence and attorney services and fees can be shared. The New York State Health Foundation recently co-invested with the Ford Foundation and Prudential Social Investments in the Freelancers Union, a nonprofit organization that used investment proceeds to capitalize its wholly owned, for-profit health insurance company for freelance workers. New to the field of PRIs, the New York State Health Foundation was able to discuss the transaction with, and tap many of the due diligence materials prepared by, its more experienced co-investors.

ONGOING STRATEGIC AND INSTITUTIONAL MANAGEMENT

➤ ***Develop a human resources plan; systems for impact investing, innovation, collaboration, evaluation, learning, and communications; and ways to leverage investment activity*** – Foundations often find that impact investing adds an important dimension to their overall philanthropy, increasing their focus on strategic, scalable solutions to social problems. Impact investing is a catalyst for, and an essential ingredient in, a more broadly based evolution taking place in the social sector's capacity to solve problems and enhance community life. Contributing to this evolution are:

- social enterprise business models that take into account factors necessary for effective and accountable growth, such as a commitment to mission and skills, adequate financing, and effective operational systems, marketing, performance tracking, and communications;
- a suite of financing structures – from recoverable grants to market-rate debt and private equity – that support the scaling of social enterprises through all growth stages;
- networking as a core element of scaling and value creation (it occurs through Web-driven knowledge, capital aggregation, and performance tracking; shared services that reduce costs; or physical colocation of services that support community health and sustainability);
- diversity, equity, and sustainability as organizing principles of successful social enterprises;
- a cadre of emerging social entrepreneurs and business professionals interested in careers that drive sustainable social change;
- validation in the marketplace that social and environmental values can drive business competitiveness rather than merely be an afterthought or correct conventional business models;
- an emerging interpretation of prudent investing standards and fiduciary responsibility that calls upon investors to consider not only the short-term financial return on investments, but also the long-term

ORGANIZATIONAL FORMS: BUILT FOR IMPACT

New types of organizations are emerging that seek to harness the advantages of both nonprofits and for-profits to achieve social good. Examples include:

- hybrid organizations with nonprofit and for-profit affiliates;
- new legal structures, such as low-profit limited liability companies (L3Cs) – profit-generating corporate entities that have a social mission as their primary objective;
- for-benefit corporations, which are designed to generate profits and have a charitable or social purpose, although, unlike L3Cs, such a purpose need not be their primary objective; and
- B-corporations, which certifiably comply with a range of responsible business practices. The certification comes from B Lab, a nonprofit that aims to create a new sector of the economy that leverages the power of business to solve social and environmental problems.

B-corporations aim to counter two factors: (1) "shareholder primacy," which "makes it difficult for corporations to take employee, community, and environmental interests into consideration when making decisions; and (2) the absence of transparent standards of business social responsibility, which makes it difficult to tell the difference between a 'good company' and just good marketing."

Another motivation for these new entities is to position qualifying companies so they can attract PRI equity capital without the need for an elaborate legal process to document charitable use of proceeds (B Lab 2010).

financial performance and contribution to advancing, reinforcing, and protecting an institution's mission; and

- a growing, diverse number of individual and institutional investors who want to invest in for-profit ventures that align profits and social impact, and in entrepreneurial nonprofits that seek to expand their impact.

➤ ***Identify and manage risks*** – Like any innovation, new business models and investment practices in the social sector carry risks, which include those related to credit and investments, execution, reputation, and unintended consequences. Integrating these risks into existing models and practices can be challenging. Foundations with effective impact investing programs seek to identify and manage such risks.

- ***Credit and investment risks.*** Effective impact investors typically try to apply the same level of rigor in deal sourcing and financial due diligence as would be expected of traditional investors. They also assess an investment's fit with and capacity to advance the foundation's mission or program objectives. Managing credit and investment risk involves:
  - **The investment thesis.** As with conventional investments, the investment thesis demonstrates how an impact investment will be repaid, along with any expected return. It is supported by the quality, depth, and suitability of management and the entity's competitive position; business plan; historical, current, and projected financial performance; capital requirements, sources, and uses; and expected returns to investors (debt repayment or gains on equity). If venture capital is the funding source, a new product's growth potential and issues regarding patent or intellectual property ownership are also key concerns. Investments in intermediaries and funds require an evaluation of their management, track record, strategy, due diligence, portfolio monitoring and reporting infrastructures, and alignment of co-investors' interests. Investments in projects, such as real estate developments, require an evaluation of the project itself and the financial strength of the manager or sponsor.
  - **The social thesis.** The social thesis states how an impact investment advances or aligns with the foundation's mission, and may also discuss how the investment advances particular programmatic goals. When foundations make PRIs, they intentionally take on greater risk and/or expect a lower return in order to advance a charitable purpose. Sound strategy, management, and organizational sustainability are necessary to realize charitable, as well as other investment objectives, so due diligence for a PRI should be as thorough as it is for any other investment. Due diligence should identify risks and risk mitigants, and establish the rationale for accepting higher financial risks or an expected lower return. A private foundation that wants to treat an investment as a PRI will need to document why the investment qualifies as such. If the investment is not in a 501(c)(3) public charity, the foundation generally must carry out expenditure responsibility (see Glossary) in advance and for the life of the investment.

MEASURING THE IMPACT

The growth of impact investing has been limited by a lack of consistent standards regarding how investment funds define, track, and report on the social and environmental performance of the assets they manage. This also leads to higher transaction costs and difficulty gauging the impact of investments.

With support from the U.S. Agency for International Development, the Rockefeller Foundation, and the accounting firms Deloitte and PricewaterhouseCoopers, the Global Impact Investing Network (2009) is developing a common framework, called Impact Reporting and Investment Standards (IRIS), that enables comparisons of impact data across investments. For more information about IRIS, visit http://iris.thegiin.org/homepage.

MANAGING THE DOWNSIDE

Advocates of impact investing note that it does have a downside. Christa Velasquez (2010), director of social investments at The Annie E. Casey Foundation, cautioned that it:

- can be complex and time consuming;
- requires programmatic and financial skills;
- entails legal fees and other transaction costs;
- may involve adversarial negotiations and structuring; and
- requires long-term reporting and monitoring.

In addition, said Velasquez, measuring and quantifying the social impact can be difficult.

According to Doug Stamm (2010), CEO of the Meyer Memorial Trust, a new impact investing program could encounter challenges such as:

- the foundation board's aversion to risk;
- the traditional view of fiduciary responsibility that a foundation should seek to outperform the market with its endowment (95 percent of assets) and make impact investments strictly through grants (the 5 percent payout);
- the lack of an impact investing policy to guide decisions;
- the investment team and program team working in silos;
- external investment managers and advisers' unfamiliarity with the concept of impact investing and with impact investing intermediaries; and
- the lack of robust selection of asset managers for some asset classes.

- **Social metrics.** Assessing the success of individual impact investments and impact investing portfolios, and making the case for allocating additional resources, typically hinge on demonstrating social impact, as well as financial return. The foundation should negotiate and document in advance the social impact reporting it will require for each investment.
- **A complementary grant strategy.** Many organizations and projects need grant funding for the business planning necessary to prepare for successfully deploying funds they receive as impact investments. Some foundations provide planning grants before they disburse impact investments. Others combine grants and particularly PRIs in a way that helps organizations build the human resources, marketing, loan loss reserves, and other systems they may need to make a PRI-supported venture successful. Foundations making impact investments can also encourage complementary grants from other sources, such as peer foundations that back an investee's strategy but are not yet able to advance such investments, or from public agencies that require matching funds.
- **The exit.** Due diligence closely examines the feasibility of, and the process and timing for, achieving a successful exit. Related questions include these:
  1. Are the founders of a mission-driven, for-profit company committed to selling it only to others who will safeguard the mission?
  2. Does the foundation have the patience to wait for this type of exit and/or accept the lower profits such an exit may generate, versus other alternatives?
  3. Can the foundation manage the liquidity risk of having its capital locked up for a minimum of five to seven years?

4. In the case of a debt financing, can the foundation wait long enough to ensure that repayment will not destabilize the borrower?

- ***Execution risks.*** As mentioned earlier, an investment policy statement typically describes how a foundation will execute its investing activities. Methods for managing execution risk include:

  - **Portfolio monitoring.** After impact investments are booked, regular financial and program monitoring (typically quarterly) are essential over the life of the investments to ensure progress according to plan or to identify and make appropriate mid-course corrections.

  - **Time and skill requirements.** Rigorous analysis of potential impact investing opportunities and subsequent monitoring of the portfolio require strong financial skills and knowledge of the specific market sector and/or geographic area in which the foundation will invest. Foundations that do not have the requisite in-house skills and/or adequate time for these important functions will benefit from working with co-investors, intermediaries, and consultants.

  - **Regulatory compliance.** PRI regulations for private and community foundations are different (see Appendix E). As mentioned earlier, the IRS defines PRI and provides related guidelines only for private foundations. Qualifying private foundation PRIs are exempt from jeopardizing investment and excess business holding regulations and can be counted toward a private foundation's distribution requirement. Many private foundations seek a legal opinion to document that each of their PRIs qualifies under the legal definition; others may make this judgment internally based on the charitable purpose and terms of the investment. Guarantees are a special form of PRI that can be counted toward a private foundation's distribution requirement only to the extent that funds are disbursed.

    Whether or not a private foundation seeks to count a PRI toward its distribution requirement, it is important to document how the investment advances mission or program priorities. If the PRI is not in a 501(c)(3) public charity, private foundations generally need to carry out expenditure responsibility to demonstrate the charitable use of PRI proceeds in advance and for the life of the investment.

    While these regulations apply only to private foundations, many community foundations adapt PRI guidelines to reflect a similar approach. Foundations of all types also typically undertake and document financial due diligence on PRIs as reasonable business care. This upholds general principles of fiduciary responsibility and provides evidence of the foundation's analysis that, at the time of originating a PRI, the investee had the capacity to meet both its financial and social performance expectations. If this is not the case, a recoverable grant or straight grant may be the more appropriate funding vehicle.

    The regulations pertaining to MRIs – impact investments with expected market rates of return – are the same as for conventional investments. Because MRI is a term of art rather than a regulatory term, no special regulations or exemptions apply. Therefore, regulations governing private foundation jeopardizing investments apply to MRIs, and both private and public charities are subject to state fiduciary laws. The IRS (2010b) defines jeopardizing investments as those that "show a lack of reasonable business care and prudence in providing for the long- and short-term financial needs of the foundation for it to carry out its exempt function." The determination of whether a foundation has shown reasonable business care and prudence is based on conditions at the time of the investment. The guidance for formulating and documenting an investment and social thesis for both PRIs and MRIs aims to filter investment opportunities down to those most likely to perform, and ensures that a foundation has taken reasonable business care and prudence in selecting investments.

  - **Costs.** Potential costs for impact investing include staff training, due diligence, legal documentation for PRIs, and ongoing investment monitoring. Dialogue between investment and program staff is important for determining which functions the foundation can readily take on and/or develop in-house and which ones it may outsource to partners and consultants. (Like foundation expenses associated with grantmaking, those associated with qualified private foundation PRIs can be counted as part of the organization's distribution requirement. Fees and expenses associated with market-rate impact investments, on the other hand, are treated like any conventional investment management expenses.) Some foundations have noted that costs associated with PRIs compare favorably with the 100-percent expensing of grants, especially considering the expected PRI repayment, recycling, and modest yield. Both PRIs and MRIs achieve direct social impact and leveraging of co-investors to advance mission, delivering value exceeding conventional investment returns that may carry comparable expense. Finally, if a foundation chooses to hire staff who have impact investing expertise and/or it decides to develop such expertise internally, fees paid to outside consultants are likely to diminish over time.

- ***Reputational risks.*** More foundations of all sizes and types are successfully managing PRI and MRI programs. However, because impact investing is a new activity for most foundations, there are reputational risks. Components of reputational risk management include:
  - **Managing expectations.** While many social sector organizations pursue social missions, including some that are health-related, few of them will fit any foundation's bull's-eye combination of mission, geography, and creditworthiness. Foundations save everyone time if they send clear signals about their priority investment themes, the program areas they can and cannot invest in, the likely terms and time horizon for investments, and any preconditions a potential investee would have to meet. Such preconditions might include completion of a business plan with five-year financial projections, a commitment to perform funded activities within geographic areas the foundation considers a priority, or commitments by other investors.
  - **The investment culture.** Investing is fundamentally a market-driven activity. Sometimes foundations may have to quickly decide whether to make PRIs or MRIs in grantee organizations or to co-invest with like-minded investors who present time-sensitive opportunities. A foundation's grantmaking and other activities may not be similarly customer-driven; consequently, response times can be ill-suited to investing in markets where the pace is faster and oriented to customer service. Efficient preliminary assessment of deals, as well as a decisionmaking process that enables staff to send clear, timely signals to the marketplace about a foundation's ability to respond to investment requests, enhances the value of an impact investing program.

    On occasion, grantees that qualify for impact investments may resist an investment culture, often

WHAT DOES IT COST?

The potential cost of operating an impact investing program can be quite manageable. Early on, the Ford Foundation calculated that, even accounting for a 10 percent loss rate on PRIs and the opportunity cost of not investing funds in higher-yielding instruments, the total cost of its PRI portfolio was about 21 percent of the investment amount. This compares favorably to 100 percent expensing of a grant (Ford Foundation 1974).

As a first step in prioritizing its impact investing, the F.B. Heron Foundation transferred some actively managed investments into index and enhanced index funds. This reduced investment management fees and the staff time necessary to oversee the active managers without any detriment to investment returns. The foundation encouraged staff to get the training they needed to perform due diligence for PRIs, but it also retained specialized consultants to help with sourcing, due diligence, and monitoring of investments (School of Community Economic Development 2007).

In 2009 Heron's direct investment expenses, including those for asset management, custody, and consultant fees related to its traditional and impact investments, were about 35 basis points (Ragin 2010).

because they have been highly successful in assembling the grants they need to grow to a certain stage. In these situations, it helps if the foundation or other lenders and consultants explain to grantee managers and boards the advantages and feasibility of taking on financial investments (usually debt, a liability for borrowers) to expand in an orderly fashion when opportunities and the demand for services arise rather than when grant funding becomes available.

An advantage that mission-driven sources of capital bring to the marketplace – through direct investing by foundations or through intermediaries – is a commitment to the sustainability and success of their mission-driven borrowers. Accordingly, providers of debt often do not assess penalties for loan prepayments, which makes it easy for borrowers to pay down debt and minimize interest expense if they experience grant windfalls. (This is not true in the case of certain subsidy programs, such as New Markets Tax Credits, which require that loans be outstanding for at least seven years.)

- **Loans versus grants.** Although grant applicants generally welcome PRIs and other impact investing strategies as innovative, some may be unhappy if a foundation suggests that they receive a loan instead of a grant, and some staff at the foundation may feel that it is being "cheap" by offering a loan instead of a grant. Foundation staff may also find that they have to decline or defer investment requests because the applicant does not demonstrate repayment capacity. From a strategic standpoint, grants and loans generally are not interchangeable. Foundations typically reserve their grant resources for situations that cannot support financing. They usually extend larger funding amounts through PRIs or MRIs than they could through grants alone, frequently entering into longer and more comprehensive partnerships with investees and leveraging additional financing from other investors to support investee growth. In addition to these direct benefits for investees, impact investing stretches philanthropic resources, thus enabling foundations to do more with less as they recycle repayments from successful investments.
- **Aligning interests.** In negotiating the terms of investments or working out terms if an investment has not performed well, the foundation and investee's interests may not be aligned. Until such issues are resolved, relationships can be strained. Some foundations prefer to invest through intermediaries so a third party absorbs this risk.

- ***Unintended consequences***. As with any proposed new activity, a foundation will benefit from reviewing which areas of its current activities will be enhanced, diminished, and/or replaced by impact investing. One valid concern is that such investments, by focusing on scaling and the organizational effectiveness an investee needs in order to repay a PRI or MRI, inevitably create a preference for large organizations. Such a bias may cause foundations to miss opportunities to invest in smaller organizations or those in earlier stages of growth that may have stronger grassroots ties or offer game changing innovations. Due diligence should verify that potential investees have strong partnerships and are effective at the grassroots level. The W.K. Kellogg Foundation, New York State Health Foundation, California HealthCare Foundation, and The California Endowment are among funders that operate impact investing Web portals to ensure that a wide range of applicants can submit requests the funders might not see otherwise. Although most such requests do not fit with a foundation's strategy, the portals are an important way for foundations to learn about investment-worthy innovations or organizations.

IMPACT INVESTING IN ACTION

At the heart of innovation in philanthropy is the aim to increase impact – to more effectively solve society's problems, enrich community life, and ensure equity. Below are profiles of funders that are advancing this aim through impact investments in health care, health coverage, and healthy community.

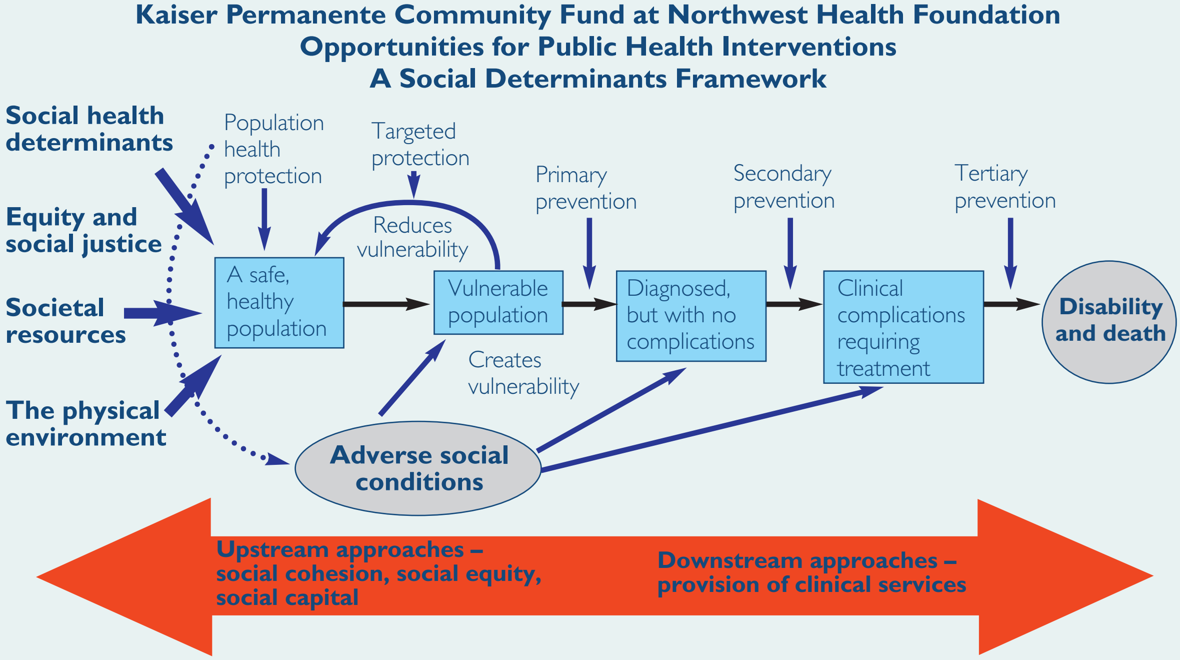
Funders are making these investments at the same time that health care policymakers, practitioners, and advocates are advancing their fields through increasing emphasis on health promotion versus disease treatment. The emerging practice of integrative medicine reinforces the Healthy People 2020 goals. Integrative medicine, according to Ralph Snyderman (2009), chancellor emeritus for health affairs at Duke University, "creates a seamless engagement by patients and caregivers in the full range of physical, psychological, social, preventive and therapeutic factors known to be effective and necessary for the achievement of optimal health over the course of one's life cycle." This approach seeks to deliver not only better, but also more cost-effective, health care by:

- encouraging good health;
- sharing the responsibility for good health among individuals, the health care system, and other supporting systems;
- identifying and managing personal disease risks; and
- when disease develops, identifying and treating it early with care that is well-coordinated among physicians and others on the health care team.

The current health care system, however, is still far from the integrative ideal. Rather, as Snyderman (2009) observes, it is uncoordinated, without a coherent approach or infrastructure; disease-oriented, operating on a "find it and fix it" paradigm; reactive; physician-directed, with little patient engagement; expensive; and not personalized, standardized, or safe.

These deficiencies are more pronounced for vulnerable populations, which have higher health risks and face greater barriers to health care (depicted in Figure 4, the social determinants of health model developed by Kaiser Permanente and the Northwest Health Foundation).

FIGURE 4. A SOCIAL DETERMINANTS FRAMEWORK FOR PUBLIC HEALTH INTERVENTIONS



Source: Northwest Health Foundation 2010; Milstein and Homer 2003

AMERICA'S RISING CHRONIC DISEASE AND HEALTH CARE EXPENSE BURDEN

Six "unhealthy truths" reinforce the need for greater investment in prevention to improve health outcomes and rein in health care costs:

Truth #1: Chronic diseases are the top cause of death and disability in the United States.

Truth #2: Patients with chronic diseases account for 75 percent of the nation's health care spending.

Truth #3: About two-thirds of the rise in health care spending is due to the rise in the prevalence of treated chronic diseases.

Truth #4: The doubling of obesity rates between 1987 and today accounts for nearly 30 percent of the rise in health care spending.

Truth #5: The vast majority of cases of chronic disease could be prevented or managed better.

Truth #6: Many Americans are unaware of the extent to which chronic disease harms their health – and their wallets (Partnership to Fight Chronic Disease 2010).

- ***Disparities persist*** – Despite improvements in the overall health of Americans, disparities continue among members of racial and ethnic minority populations. African-American adults are 1.9 times more likely, and American Indian and Alaska Native adults are 2.3 times more likely, than white adults to receive a diagnosis of diabetes. In 2005, Hispanics were 1.6 times more likely to die of diabetes than were non-Hispanic whites. The rate of diabetes among Native Hawaiians living in Hawaii is more than twice the rate among whites, and Native Hawaiians are 5.7 times more likely to die of diabetes than are whites in that state. Native American women are 1.7 times more likely to die of cervical cancer than are white women, and rates of cervical cancer among Vietnamese-American women are five times higher than they are among non-Hispanic white women (CDC 2010b).

- ***Health care costs are unsustainable*** – 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 (Himmelstein et al. 2009).

- ***Medical care is an essential but relatively small part of the solution*** – Only 10 percent 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" (Commission to Build a Healthier America 2009).

- ***Prevention can make a big difference*** – A healthy diet, regular physical activity, and avoidance of tobacco products could prevent at least 80 percent of all cases of heart disease, stroke, and type 2 diabetes, and more than 40 percent of cancer cases (World Health Organization 2005). The three types of medical prevention that can preclude or minimize disease effects and costs are:

  1. primary: taking action before a problem arises in order to preclude it, rather than treating or alleviating its consequences;
  2. secondary: measures for early detection of, and prompt intervention to control, a health problem or disease, thereby minimizing the consequences; and
  3. tertiary: using treatment and rehabilitation to reduce further complications of an existing health problem or disease.

  Many factors influence whether specific prevention efforts yield cost savings. Community-based primary and secondary prevention may be inexpensive; it also reduces disease rates and/or improves health choices without direct medical care – for example, by promoting greater physical activity, better nutrition, and less tobacco use. Secondary prevention is more cost-effective if it is targeted to at-risk populations. Tertiary prevention involving direct medical treatment or pharmaceuticals often is more expensive (Trust for America's Health 2009).

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 impact investment profiles below are organized by broad themes – health care, health coverage, and healthy community – and by specific investment opportunities within those themes. (For an overview by theme, see Appendix F: Summary of Health-Focused Impact Investing Profiles.)

Investments in health care provide financing for a range of health centers, products and innovations, and health workforce development. Investments in health coverage include traditional insurance and family economic security, an umbrella term for financial services and benefits that enable people to pay for care. Investments in both health care and health coverage promote equitable delivery of and payment for high-quality, affordable care.

Investments in healthy community seek to counter disparities and set the social determinants of health – for example, access to healthy physical environments, nutritious food, and quality education – in order to avoid preventable diseases and minimize unnecessary health care costs over the life cycle. Such investments emphasize:

- early child care and education, laying the foundation for lifelong good health and equipping the next generation with tools to permanently move out of poverty;
- affordable housing, a key to individual and family stability that can also lead to significant health care savings for the housed persons and society;
- jobs, as a source of income, health insurance coverage, and health-reinforcing social connections (like affordable housing, jobs can promote health as long as living or working conditions themselves are not hazardous);
- Sustainability investments that simultaneously promote environmental conservation, economic development, and equity; and
- investments that strengthen or restore the community fabric and promote equitable access to opportunity, which are essential for creating conditions that enable good health.

The profiles, summarized by sector in Table 6, are based on the experiences of about 40 foundations and several health systems that have made health-related PRIs or MRIs. Although many would not call themselves health funders, their investments support organizations and initiatives that improve health care delivery or coverage, or that create positive social conditions, which in turn reduce health risks. While many are large foundations with $500 million or more in assets, about a quarter have assets of well less than $100

SCALING "IN PLAIN SIGHT"

The Commission to Build a Healthier America (2009) found many effective models for improving health that were "hidden in plain sight," the scaling of which could promote health in communities nationwide.

Appropriately structured and managed impact investments are critical scaling tools. Special financing intermediaries, such as CDFIs and mission-driven private equity funds, often manage the investment process on behalf of impact investors. Together, investors and intermediary partners are building an impressive track record of enhancing the sustainability of high-performing organizations and scaling solutions in health care, health coverage, and healthy community. These investments often have both direct and secondary social impact, as in creating a national network of well-capitalized community health centers and bringing quality jobs and related small businesses to low-income communities.

million. The strategies at small and large foundations are similar, but the scale is generally more limited and the focus more local at small foundations.

Collectively, the profiles illustrate how funders of all sizes and structures in different geographic locations, and with a variety of program areas, are making health-related impact investments. They are doing so directly and through intermediaries, across program areas, asset classes, and levels of expected, risk-adjusted returns. The scope and complexity of the challenges these investments address, and the impact they have, make a strong case for impact investing as a health funder tool.

TABLE 6. SUMMARY OF HEALTH-FOCUSED IMPACT INVESTING BY SECTOR

Sector	Impact	Opportunity	Examples
Health care	• Provides a range of prevention and health care services over the life cycle. • Spurs improvements in health care delivery. • Creates new firms and jobs.	• Community health centers and safety net providers • Private equity/venture capital investments or funds for health products and innovations • Health care workforce development	• A range of federally qualified health centers, other health centers, and human services organizations • Private equity investments in companies such as VISICU, Textronics, Peninsula Pharmaceuticals, and Revolution Foods; investments in funds that target health care and prevention, such as DBL Investors and Physic Ventures • Cooperative Home Care Associates, Council for Adult & Experiential Learning
Health coverage	Pays for prevention and health care over the life cycle.	• Niche health insurance companies • Nonpredatory financial institutions	• Freelancers Insurance Company • A range of CDFIs and nonpredatory financial services providers
Healthy community	• Reduces the need for health care and health care expense over the life cycle. • Strengthens local economies, communities, and equity.	• Human development: mind and body • Housing • Jobs, income, and benefits • Environmental sustainability • Community and equity	A range of CDFIs and other entities that finance or deliver: • child care, education, and youth development • nutritious food providers and their supply chain • providers of safe physical activities • developers of affordable and supportive housing • nonpredatory credit and financial services providers • small business debt and equity • sustainable development projects or approaches • community institutions and equitable access to opportunity

Source: Author.

HEALTH CARE

These investments generally target three categories: health centers, health care products and innovations, and health care workforce development.

- ***Health centers*** – Safety net providers in the profiles that follow include the range of community health centers – predominantly federal qualified health centers (FQHCs) – and hospitals, hospices, and rehabilitation centers serving vulnerable populations. FQHCs are dedicated to delivering primary medical and dental care, as well as behavioral and social services, to underserved populations and areas.

> *"With endowment funds down across the country due to the economy, it is important for foundations to seek innovative ways to leverage assets. Mission-related investing is one of the tools philanthropy can use in addition to grantmaking. It is a way for our foundation to create value both socially and financially."*
>
> *– Mary Vallier-Kaplan, vice president and COO, Endowment for Health*

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. Many of these people have multiple chronic health conditions and poorly kept medical records, and they face language, transportation, and other challenges. The need to expand financing is urgent: in 2015, FQHCs are slated to serve 40 million people under the recently enacted health care reform, up from the current 20 million at 7,500 sites (Coleman 2010a). Their expanded role as "medical homes" for patient-centered, coordinated care will be critical to the success of health reform – not only for low-income populations, but also for today's growing uninsured population more generally.

FQHCs' revenue mix includes federal – and often state, county, and city – grants; payments by patients with Medicaid, Medicare, or other third-party coverage; and sliding-scale payments by the 40 percent of patients who are uninsured (Adashi et al. 2010). Because the health centers serve everyone, regardless of ability to pay, they have a low-margin revenue stream and are under pressure as more people lose health

INTERMEDIARIES FOR FINANCING HEALTH CENTERS

Several national CDFIs and similar intermediaries lend to health centers, as do many strong regional CDFIs and some health systems and community banks.

Two national intermediaries are Capital Link and NCB Capital Impact. Capital Link, a nonprofit headquartered in Boston, is raising a PRI fund to finance the expansion of FQHCs 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.

Since 1998 Capital Link has worked with two-thirds of all FQHCs and "look-alikes," or organizations that receive many of the same benefits as FQHCs but not grant funding under Section 330 of the Public Health Service Act. It has helped 170 health centers raise $510 million in financing for projects totaling $658 million, with no known payment defaults to date (Coleman 2010a).

NCB Capital Impact has financed $464 million for health centers, which have a combined capacity to serve 750,000 patients annually in 2.9 million square feet of additional space. It lends about $100 million to health centers each year (Donovan 2010).

FINANCING THE SAFETY NET

The Colorado Health Foundation (2010) recently announced that it had launched a $3 million loan fund 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 of between $50,000 and $300,000.

NCB Capital Impact, the foundation's intermediary partner for managing most aspects of the fund, structures the 4 percent loans, which, like revolving lines of credit, are renewable each year. The foundation is strictly an investor; it does not review or approve any loan applications.

Kelly Dunkin, Colorado Health Foundation's vice president of philanthropy, said traditional and short-term capital tools are often unavailable to nonprofits, especially in the current banking environment. The loan fund, she said, will give borrowers "short-term loans in larger amounts and at an interest rate well below what traditional lenders offer."

The Endowment for Health recently created a similar loan fund to serve community health centers in New Hampshire.

insurance coverage in the current economic downturn.

Capital Link, a lender to FQHCs and the nation's most active packager of FQHC financings, estimates that about 75 percent of the health centers generate sufficient revenue to be able to repay a facilities loan. About 25 percent can repay such loans at a loan-to-cost ratio of approximately 75 percent – in other words, with a 25 percent, grant-funded down payment that constitutes project equity. Fifty percent can likely repay at a loan-to-cost ratio of about 50 percent, which means they must raise a 50 percent down payment through grants (Coleman 2010b). However, given FQHCs' slim operating margins and complexity, banks often consider health centers to be too risky. For loans, many FQHCs turn instead to specialized intermediaries, such as Capital Link, NCB Capital Impact, the Primary Care Development Corporation, strong regional CDFIs, and selected health systems.

FQHCs will need $16.6 billion in capital funding to expand capacity so they can serve 40 million people by 2015. The health centers have identified about $2.4 billion in grant funding from a variety of sources for that purpose and will receive another $1.5 billion in capital funding from the Health Resources and Services Administration (HRSA) through health care reform. But a funding gap of at least $12.7 billion must be filled with a combination of low-cost debt and grants (Coleman 2010b). This amount does not take into account the other types of health care facilities that will be necessary, such as stand-alone behavioral, dental, and school-based health centers; critical access hospitals; hospices; and drug rehabilitation centers.

About 85 FQHCs recently received multimillion dollar Facilities Improvement Project grants under the American Recovery and Reinvestment Act of 2009. But the grants often do not cover the full expense of facility upgrades, which cost $3 million to $30 million (Coleman 2010b). Foundations are providing various types of critically needed financing, often in partnership with high-performing CDFIs. They also are leveraging a range of federal programs, such as HRSA funding, loan guarantees from the U.S. Department of Agriculture, and the New Markets Tax Credit Program. To date, debt financing for school-based health centers has been limited. When it occurs, it is typically part of financing for a larger health center of which the school-based clinic is a branch or program. While subordinated loans and those with below-market interest rates are most useful, health centers also often need senior and market-rate debt. Funders that have financed health center facilities include the California Community Foundation, Consumer Health Foundation, Ford Foundation, The Kresge Foundation, MetLife Foundation, Prudential Foundation, Robert Wood Johnson Foundation, The Rhode Island Foundation,

METLIFE'S FOCUS ON COMMUNITY DEVELOPMENT

In 2008 the MetLife Foundation, a corporate foundation that has been making social investments since 1984, made $188 million in special loans and equity investments for community development, according to Dennis White (2010), the foundation's president.

"We continue to invest in health centers, and we like to work with specialized intermediaries because they know the markets better than we can," White said. "[Intermediaries] can also do smaller investments and so allow us to bring a different presence to communities where we want to be."

The Colorado Health Foundation, and Tides, as well as Catholic Healthcare West and the Endowment for Health. Most of them invested via CDFIs.

Health funders and other investors extend working-capital or cash-flow loans to qualifying heath centers to cover delays in reimbursement or, less often, receipt of pledged grants. Foundations are spearheading or participating in funds for emergency loans in California, New Hampshire, Michigan, and Colorado. They generally partner with CDFIs, such as NCB Capital Impact or the Nonprofit Finance Fund, that underwrite and administer the loans. The intermediary confirms that a health center's need for working capital is indeed a result of short-term delays in collecting receivables rather than more systemic financial weakness. In addition to FQHCs, the working-capital loans may go to a broader range of fundamentally strong safety net organizations whose demand for services often increases just as contract receivables and grants are delayed or reduced. Participating investors include The Kresge Foundation, Marion I. & Henry J. Knott Foundation, The Colorado Health Foundation, California HealthCare Foundation, Catholic Healthcare West, Sutter Health, and the Endowment for Health.

All FQHCs and most safety net providers are nonprofit, but for-profit providers also serve vulnerable populations. These entities may be able to attract facilities financing from banks that is guaranteed by the U.S. Small Business Administration (SBA). The fixed-income manager Community Capital Management has issued market-rate bonds backed by SBA-guaranteed loans, including a loan to a Native American-owned hospice in North Carolina and another to a drug rehabilitation center in Alabama. Community Capital Management used bond proceeds to purchase these loans from the banks where they originated, which gave the banks liquidity to make new loans.

INVESTING IN HEALTH PLANS AND HEALTH CENTERS: A WELL-TESTED STRATEGY

Early on, relatively few impact investments focused on health. But some that did tested models for improving both the access to and quality of care for vulnerable populations.

For example, two of 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 (Ford Foundation 1974).

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.

Nearly three decades later, The Rhode Island Foundation invested $2 million to purchase the preferred stock of an out-of-state provider of the Neighborhood Health Plan of Rhode Island, which preserved access to care for the state's most vulnerable populations by creating a state-focused, financially stable insurer. In partnership with 21 community health centers statewide, Neighborhood Health Plan has more than doubled the number of enrolled patients – to 76,000 (from 36,000). It was rated the best Medicaid health plan in the United States in 2006, and the Robert Wood Johnson Foundation selected it as one of two health plans to address racial and ethnic health disparities through reimbursements, standards, and training for medical interpreters.

Neighborhood Health Plan converted to nonprofit status soon after The Rhode Island Foundation's investment, at which point the foundation restructured its equity holding to a 20-year loan that pays interest quarterly and amortizes principal with repayments of $500,000 every five years. The foundation made the loan with unrestricted funds priced at its 5.75 percent spending rate so interest payments could fund grants as investment income normally would. Repayments of the principal are returned to unrestricted funds (Bernholz and Richter 2009).

TABLE 7. DEBT FINANCING FOR HEALTH CENTERS

INVESTMENT FACTORS	Real Assets*	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

INVESTMENT FACTORS	
Investee	• Loan to an intermediary that finances health centers • Direct loan to a health center (less common)
Investors	• Facilities loans: the Colorado Health, Consumer Health, Ford, Kresge, MetLife Inc., Prudential, Robert Wood Johnson, Rhode Island, and Tides foundations; Endowment for Health, and Catholic Healthcare West. The Rhode Island Foundation invested in a health system that operates health centers. • Working capital loans: the Colorado Health, California HealthCare, Kresge, Marion I. & Henry J. Knott, Rhode Island, and Tides foundations; Endowment for Health, Catholic Healthcare West, and Sutter Health
Co-investors and partners	Selected state primary care associations, banks motivated by the Community Reinvestment Act, and Community Capital Management
Public sector	Health Resources and Services Administration (330 grant and loan guarantees), U.S. Department of Agriculture, New Markets Tax Credit Program, CDFI Fund, American Recovery and Reinvestment Act, and California Organized Insurance Network (COIN)[9]
Structure and terms	• Individual facilities loans typically range from $3 million to $30 million, with investment from multiple investors for large projects. Terms are usually from 7 to 30 years with blended interest rates from below-market and market-rate investors. • Working capital loans range from $50,000 to more than $1 million. Terms are one-year with renewals possible. Interest varies from below-market to market-rate, depending on the investor.
Exit	• Repayment from an intermediary's successful loan performance, supported by loan loss reserves • Direct loans to a health center are repaid from its financial performance
Observations	• Most financing for health centers has been for facilities (building upgrades and expansion), but it often supports only 50 percent of project debt, which means a project must be 50 percent grant-funded. • Funders have also invested in working-capital and/or emergency loan funds, which help health centers and other safety net organizations continue operating during delays in reimbursement from state contracts or other receivables. • For-profit entities operate certain community health facilities, which may have guaranteed financing from the Small Business Administration (SBA). • Community Capital Management, a fixed-income manager, has issued bonds backed by SBA loans that are for a Native American-owned hospice and a drug rehabilitation center. In addition to generating market-rate interest for federally guaranteed debt, such bonds are fully liquid – that is, depending on market conditions, investors can sell them at any time.
Innovation and impact	• Community-based, comprehensive primary care, ideally as a "medical home" • Behavioral health, dental, and other safety net services • Local community development and jobs. A study found that 11 local health centers generated a $210 million impact on the District of Columbia's economy and about 2,100 jobs (District of Columbia Primary Care Association 2009).

Source: Author.

*The asset classes listed horizontally here and in similar tables below are organized according to degree of risk. Higher-risk asset classes, such as real assets, are at the far ends of the continuum, and lower risk assets, such as guarantees and deposits, are toward the center.

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[9] The state COIN program encourages insurance companies to invest in communities and provides tax credits for investments that qualify. For more information, visit http://www.insurance.ca.gov/0250-insurers/0700-coin.

➤ ***Products and innovations*** – Products and innovations include medical devices and technologies that health care providers and consumers use, health promoting products and services for consumers, and, increasingly, products that contribute to a toxin-free and more sustainable environment.

American health products are generally produced by for-profit businesses that need equity capital to cover the high costs of development, testing, potential regulatory compliance, marketing, and broad distribution before there is a reliable revenue stream or profits.[10] Initially, these companies cannot support conventional debt; rather, they seek equity capital from family, friends, university programs, "angel" investors, and venture capital funds, which provide early-stage private equity. As a new product meets early milestones of success, the company needs additional rounds of capital to grow through subsequent stages – early venture (or seed), venture, growth, mezzanine (see Glossary), and buyout or, in some cases, initial public offering. High-growth companies also need guidance from venture investors, who often have industry expertise and sit on the boards of companies they invest in to offer advice and oversee management.

> *"It takes 15 years to become an overnight success."*
> *– Will Rosenzweig, Physic Ventures*

Raising capital is more difficult for companies that are developing products or using processes that entail lower profit expectations or deferred profits. This challenge can arise if the targeted market is relatively small; the market cannot afford a product's high margins; the processes for making the product help preserve the local environment or benefit a vulnerable population – through living wage jobs, for example; or government regulation applies. Foundations can play an important role in the development of innovative products and services by providing early-stage, as well as long-term, capital to support new ventures all the way to a buyout or initial public offering, and by sharing their in-depth knowledge of the market. Such products may enhance health care access, quality, or safety; foster appropriate use of services and pharmaceuticals; increase health care efficiency, coordination, and transparency; empower consumers to control their own health care; or support innovation in biotechnology, pharmaceuticals, or biomedical equipment.[11]

Foundations can directly invest in companies that have innovative health products, but they are more likely to invest in a fund or fund of funds that focuses on health-related sectors. Because owning a stake in an unproven product or company is risky, conventional equity investors expect at least a double-digit rate of financial return. Although most companies in which private equity and venture capital funds invest will not perform to expectations, a company whose product widely and profitably penetrates the market can generally be sold or hold an initial public offering that generates a significant multiple of investors' initial cost. Such "home run" exits more than cover their losses from unsuccessful companies.

There is an established network of venture capital funds targeted to health care companies, and limited partners (fund investors), including foundations, that invest in these funds. Some foundations may already hold health care-focused private equity or venture capital funds that would qualify as market-rate impact investments – MRIs – but they do not track them as such.

As noted, foundations make PRIs and MRI venture capital investments in the health sector both directly and through funds.

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[10] The basic research often occurs at a nonprofit entity, such as a university. Then the innovation is transferred to a for-profit entity that scales and commercializes it.

[11] Many of these products and services are featured in the investment strategy at Health Evolution Partners, a private equity firm launched in 2007 with a $700 million commitment from the California Public Employees' Retirement System (CalPERS). CalPERS is the nation's largest pension fund and the third largest purchaser of health benefits. For more details, see http://www.healthevolutionpartners.com/storage/Microsoft%20Word%20%20HEP_InvestmentStrategyPressrelease_09072007.pdf.

- ***Direct PRI venture capital investing.*** In its Innovations for the Underserved program, the California HealthCare Foundation recently launched the CHCF Health Innovation Fund. The fund's PRIs target health care services, devices, and technologies that reshape or disrupt existing markets by delivering low-cost innovations to underserved people. The foundation invests directly in for-profit and nonprofit organizations whose competitive business models for projects clearly reflect its mission to significantly lower the total cost of health care or substantially improve Californians' access to care. The primary purpose of these investments is charitable, although any of the investees could achieve commercial success. The fund's goals are to invest in projects that:
    - create sustainable access to care for at least 100,000 people in California within three to five years, and possibly for 1 million people nationally over time;
    - reduce health care costs for a defined population in California, generating annual savings of at least $25 million; and/or
    - become a strong case study for policy change enabling statewide or national adoption of products or services that reduce the cost of, and/or improve access to, health care for the medically underserved.

  The PRIs range from $50,000 to $5 million, and the foundation expects an exit within five to seven years. It has partnered with Stanford Biodesign whose university teams conducted observations in safety net settings and identified more than 200 innovation needs. Stanford Biodesign developed prototypes based on 20 of these ideas, five of which the foundation will evaluate for potential grants and PRIs (California HealthCare Foundation 2010).

- ***Direct MRI venture capital investing.*** The Abell Foundation in Baltimore, Maryland, directly invests in companies – 10 since 1995 ($60 million) – that will establish their headquarters in Baltimore, creating local jobs. The investments, funded by Abell's endowment, seek market-rate returns. Abell has profitably exited a number of its investments, which on average have generated an annualized return of around 15 percent (Embry 2010). One was Philips VISICU, whose *e*ICU technology enables physicians to oversee patients in the intensive care unit (ICU) from remote locations. *e*ICU "clinically transforms the ICU, using a proactive care model that provides a solution to growing physician and nurse shortages while dramatically improving quality of care" (Philips VISICU 2010). The foundation achieved a profitable exit when Philips purchased VISICU in 2007.

  Abell prefers to invest directly in qualifying companies rather than funds, as this gives the foundation more control over its goal to create local businesses and jobs. Although staff has the legal and financial experience to analyze and execute deals, the foundation engages sector experts to assess the likelihood that new products will succeed in the marketplace. The team also ensures that patents and intellectual property rights and protections are strong.

- ***Private equity fund investing.*** For private equity investments, most foundations turn to a fund or fund of funds. They may have difficulty finding one whose strategy and geography exactly match their own, but an increasing number of funds do invest in companies whose products or services enhance health, healthy community, and a healthy planet.

  The fund Physic Ventures, for example, provides capital and support to entrepreneurs whose focus is building exceptional science-based, consumer-directed health, sustainable-living companies that are based in North America and have global markets. Four P's broadly characterize the nature of its investments: prevention, prediction, personalization, and performance.[12]

  One investment that Physic Ventures successfully exited was Textronics, whose "intelligent clothing" integrates sensing fibers into garments, enabling electrical, optical, or magnetic signals to be measured without the need for cumbersome electrodes attached to the body. The garments monitor heart

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[12] See the interactive "Physic Ventures Investing Landscape" at http://www.physicventures.com/physic-ventures-investing-landscape.

PRI OR MRI? THAT IS THE QUESTION

Earlier this decade, the Bay Area Equity Fund received PRIs from The Annie E. Casey Foundation, Ford Foundation, and The John D. and Catherine T. MacArthur Foundation. Working with attorneys who specialized in documenting the charitable purpose of PRIs, the fund and these investors developed a set of social metrics that gave Bay Area Equity flexibility to invest in a portfolio of companies that generated top-quartile, venture capital financial returns and provided regular reports on social impact. As a result, the foundations could easily fulfill their expenditure responsibility.

The Casey Foundation, having demonstrated with the Bay Area Equity Fund that successful double bottom-line investing is feasible, subsequently invested in DBL Investors, a venture capital firm created in 2008 with the spinoff of Bay Area Equity Fund I from JPMorgan. Casey invested in DBL under its conventional asset allocation for "alternatives," which include venture capital, hedge funds, and real estate investments. Such investments enabled DBL to raise sufficient capital without foundation PRIs, and thus avoid the additional costs of PRI legal documentation. DBL, however, still reports regularly to all investors on the social impact of its investments.

function and respiration, gather vital statistics, and detect motion. Textronics products are not targeted to vulnerable populations, but they could incentivize and measure health-promoting physical activity, and thus reduce health care costs. Unilever Technology Ventures, part of an investor syndicate managed by Physic Ventures, invested in and served on the board of Textronics since the first round of funding. It helped Textronics grow from an early-stage company to acquisition by Adidas International in 2008.

DBL Investors makes equity investments in high-growth companies that provide clean technology, health care, information technology, or sustainability-oriented products and services. DBL's venture capital fuels investees' financial success, and its leveraging of public sector, university, and nonprofit resources enables them to create local social, environmental, and economic benefits. These include jobs for residents that offer a living wage, health insurance, and stock options. The guiding principle at DBL is that such social or double-bottom-line practices can significantly benefit the financial bottom line through cost savings, value creation, customer goodwill, and enhanced employee morale and retention.

Among notable health and healthy community investments of the DBL portfolio are Revolution Foods and Peninsula Pharmaceuticals. Revolution Foods provides more than 50,000 nutritious meals a day to public schools in low-income communities, and Peninsula Pharmaceuticals developed a fifth-generation antibiotic for ventilator-associated infections. Several other impact investors have invested in Revolution Foods since DBL's early-stage investment. Johnson & Johnson acquired Peninsula Pharmaceuticals in 2005, which enabled DBL to exit at an attractive multiple of its investment cost.

TABLE 8. PRIVATE EQUITY INVESTMENT IN HEALTH PRODUCTS AND INNOVATIONS

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

INVESTMENT FACTORS	
Investee	• Private equity fund or fund of funds • Direct equity investment in a for-profit company (less common)
Investors	• The Abell, Casey, Ford, MacArthur, Mitchell Kapor, and Winthrop Rockefeller foundations • Omidyar Network
Co-investors and partners	• California Public Employees' Retirement System, California State Teachers' Retirement System, and other public pension funds via intermediaries. • Banks motivated by the Community Reinvestment Act for venture funds that also promote job creation and economic development in low- to moderate-income and minority communities; corporations; and endowments
Public sector	• Possible early-stage research and development grants from the Small Business Administration and National Institutes of Health • Community Development Financial Institutions Fund for selected private equity funds that are certified CDFIs
Structure and terms	Limited partner interests in a fund or fund of funds, or equity shares in a for-profit company. Any equity structure: • "Lock up" period of at least five to seven years (often 10 years) • Double-digit or greater returns expected (often, low double digits or less for PRIs)
Exit	Generally when the portfolio company is sold or, less frequently, holds an initial public offering
Observations	• Private equity investment can be in companies in the seed, growth, mezzanine (see Glossary), or buyout stage. • A fund of funds may invest in funds that span all of these stages. • Sound patents and intellectual property protections are critical for investment success. • Forming an investor syndicate with staying power for multiple follow-on investments and company stages can boost success. • Seeking co-investors with aligned interests can simplify many negotiations. • Private foundation PRIs in for-profit entities must carry out expenditure responsibility. • Potential adverse consequences to companies and co-investors are possible if an investment is structured as a private foundation PRI, and, due to expenditure responsibility, must retain a charitable purpose or seek an exit.
Innovation and impact	Significant potential to spur disruptive technologies or approaches that improve health care or support healthy community. Examples include remote health monitoring, less-invasive disease monitoring devices, providers of nutritious school meals, alternative-fuel cars, solar energy companies, and Web sites that promote health knowledge exchange and collective problem solving.

Source: Author.

➤ ***Health care workforce development*** – While health care reform aims to significantly expand access to services for many Americans, a shortage of primary care physicians and other health care workers limits the system's ability to deliver. The shortage is particularly acute among providers who serve vulnerable elderly, minority, and rural populations. Addressing this challenge in the short term is difficult given the years of training necessary in many health professions. Furthermore, research reveals that concern about excessive debt may prompt minority college and graduate students to choose careers other than health care. Those who do study to become health professionals typically need scholarships or loan forgiveness rather than the additional student loans that an impact investing strategy might support (Sullivan Commission on Diversity in the Healthcare Workforce 2004). Entry-level workers face similar financial constraints when they contemplate additional training for positions that pay better and entail greater responsibility.

Impact investments in worker-owned health care service cooperatives, employer-based workforce development, and job benefits that attract and retain workers complement grant strategies. Such investments offer promising models for scaling efforts to cultivate qualified health professionals at all levels.

- ***Worker-owned health care service cooperatives.*** The cooperative business model gives health care workers a stake in management and earnings, which often leads to better compensation, benefits, and training opportunities than at conventional for-profit or franchise health care companies.

> ***"Increasing the investment in primary care workforce in tandem with the implementation of system reform is essential to its success."***
>
> ***– James R. Kimmey, M.D., President and CEO, Missouri Foundation for Health***

  Cooperative Home Care Associates (CHCA) is a nationally recognized, worker-owned home health care agency based in the South Bronx, New York. Founded in 1985 to provide high-quality care to clients by creating high-quality jobs for paraprofessionals, CHCA received early and consistent financing from NCB Capital Impact, a CDFI. The agency now anchors a national cooperative network that generates more than $60 million in annual revenues and has created more than 1,600 high-quality jobs. In 1991 it established the Paraprofessional Healthcare Institute to develop new programs and conduct policy research consistent with CHCA's Quality Care through Quality Jobs model. CHCA and the institute concluded that the fee-for-service home care system needed to be restructured, with home care aides and consumers at its core. In 1995 they began planning the Independence Care System, a health management organization launched in 2000 with a $1.2 million PRI from the Ford Foundation to address both consumer and worker issues (Looney 2010). The system serves adults who have physical disabilities and typically lack appropriate services and support to be able to live independently.

  Northcountry Cooperative Development Fund (NCDF), a CDFI based in Minneapolis that finances cooperatives in 11 upper Midwest states, helped Circle of Care Cooperative in Appleton, Wisconsin, develop a home-health care business plan and provided a $205,000 early-stage loan (U.S. Department of Agriculture 2007). The venture was risky because Circle of Care did not have any large public contracts and it planned to market to private-pay elderly clients. Co-op advantages offset these risks. Among these advantages were an ability to retain earnings (no payouts to investors or franchise fees); cultivate a stable workforce through training, higher wages, and benefits, such as health insurance and mileage reimbursements; and offer profit sharing to worker-owners. NCDF's institutional investors include Tides; the Group Health Association of America; several Catholic health systems (Ascension Health, Catholic Health Initiatives, and Trinity Health); and Wells Fargo Community Development Corporation, a community development finance unit within the national bank.

- ***Employer-based workforce development.*** Such programs are often difficult to finance because there are not any significant employee fees or robust revenue streams as a repayment source.[13] However, the Council for Adult & Experiential Learning (CAEL), a national 501(c)(3) organization that expands adults' access to lifelong learning opportunities, successfully raised and repaid PRI financing to the Ford Foundation and The John D. and Catherine T. MacArthur Foundation. CAEL used the proceeds to develop a product line of learning strategies that it markets to large and small businesses, with an emphasis on the health care sector. It helps health care clients recruit and train employees, including current employees who may not be in patient care, such as food service workers. CAEL collaborates with local educational institutions, particularly community colleges, to shape programs that address the full range of employee learning needs and to support workers' ability to advance along career pathways.

The organization's Registered Apprenticeship Program addresses the shortage of health care workers by improving the image and attraction of certified nursing assistant and licensed practical nurse positions, and by strengthening participant performance to meet employer needs. Participants begin as a certified nursing assistant and advance to licensed practical nurse or registered nurse through a career lattice of on-site, lab-based, and on-line training that serves as a rigorous, adult-friendly learning bridge from position to position. CAEL wants to expand the career lattice model to all health care fields, including allied health, perioperative care, and information technology, so more employees have access to career opportunities in this industry. To accomplish that, it will need additional investments. Meanwhile, CAEL recently enhanced its sustainability by forming a for-profit joint venture with the nonprofit American College Testing to provide continuing education to employees and administer tuition benefits.

SCHOOL BLAZES TRAILS TO PREPARE A DIVERSE HEALTH CARE WORKFORCE FOR THE FUTURE

Longer-term reinforcement of the ranks of the primary care workforce, particularly its under-represented minority professionals, requires impact investments to finance quality public education and other educational enrichment.

One novel approach is the public charter school within Codman Square Health Center, a federally qualified health center in the Dorchester area south of Boston that has received financial support from foundations, private donors, and other sources. It opened Codman Academy in 2001 to develop health careers among minority youth. The goals were to help build a more diverse and culturally competent health care workforce for the long term and to give vulnerable youth access to the relatively high earnings potential in this sector, which constitutes 18 percent of labor in the Boston region. All students participate in a program to become health outreach workers, then speak with families, church groups, and youth groups about healthy living, including how to avoid chronic diseases such as diabetes. Students also participate in a two-week internship at the health center during their junior and senior years.

To date, all Codman Academy graduates have been admitted to four-year colleges, and 73 percent have completed or are in college.

Codman Academy is one in a continuum of services that Codman Square Health Center offers to help low-income minority residents in its community prepare for healthy and prosperous lives. Having observed the bonding that occurs among mothers in prenatal classes, the health center now holds a range of parent-child classes that foster healthy behaviors and school preparedness. It also cosponsors a farmer's market, teaching kitchen, fitness classes, and youth center. The health center has received grants to support its activities, and has taken on and repaid debt (Walczak 2010).

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[13] The rise in recent years of some for-profit career training enterprises that charge predatory tuition to vulnerable students is a cause for concern. Impact investors will want to ensure that their workforce development investments support entities whose practices enhance the career prospects and financial security of students. See The Project on Student Debt at http://www.projectonstudentdebt.org and The Institute for College Access & Success at http://www.ticas.org.

- ***Job benefits.*** Employment benefits help attract and retain a qualified, diverse workforce. Benefits are one of several areas that health systems may target for impact investing, sometimes in partnership with foundations. Systems affiliated with Johns Hopkins University, the University of Pennsylvania, and the University of Chicago in effect have become impact investors by providing second mortgages or – as Johns Hopkins and its partner The Annie E. Casey Foundation did – by financing a new housing development near campus in east Baltimore to attract health care workers. The university and foundation offer a range of incentivized housing loans to employees who qualify.[14] In many programs, the health system offers forgivable loans in the $3,000 to $7,500 range. An employee who leaves before a certain period of time must repay the loan; if he or she stays, the loan is forgiven. More recently, health systems are creating joint ventures and professional service agreements with physicians that aim to improve overall quality of care in a region while reducing costs on all sides.[15]

TABLE 9. DEBT FINANCING FOR HEALTH CARE COOPERATIVES

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				
Investee	CDFI intermediaries that finance worker-owned cooperatives, including home health care services										
Investors	• NCB Capital Impact and Northcountry Cooperative Development Fund: Tides • NCB Capital Impact: California HealthCare, Ford, Kellogg, MetLife, Prudential, Rasmussen, and Robert Wood Johnson foundations; Endowment for Health										
Co-investors and partners	• NCB Capital Impact: United Methodist Pension Fund, Sutter Health, Impact Community Capital, Catholic Healthcare West, Cal Mortgage, and California Primary Care Association • Northcountry Cooperative Development Fund: Ascension Health, Catholic Health Initiatives, Group Health Association, Trinity Health Corporation, and Wells Fargo Community Development										
Public sector	• CDFI Fund • Small-business advisers with the U.S. Department of Agriculture for rural health care cooperatives										
Structure and terms	Long-term loan, typically up to 10 years at 1 percent to 3 percent interest (with interest only for the first three years)										
Exit	Repayment from the intermediary's successful loan performance, supported by loan loss reserves										
Observations	• Circle of Care Cooperative identified a home care market consisting of private-pay elderly. • Positive health care working conditions can have a substantial effect on improving patient care and reducing worker turnover.										
Innovation and impact	The worker cooperative structure, compared to franchise or investor-owned health care businesses, can mitigate credit risks. Risk mitigation factors include the ability to retain earnings (versus payment of franchise fees or payouts to investors) and to establish a stable workforce through training and higher wages and benefits, such as shareholder dividends, participation in management, health insurance, retirement plans, mileage reimbursements, and emergency loans to workers for personal needs.										

Source: Author.

[14] See Ross, Lynn M., "Quantifying the Value Proposition of Employer-Assisted Housing: A Case Study of Aurora Health Care," <http://www.nhc.org/media/documents/Quantifying_EAH.pdf>, May 2008; and REACH Illinois, "Regional Employer-Assisted Collaboration for Housing (REACH)," <http://www.reachillinois.org>.

[15] See Mack, Cordell, and Craig D. Pederson, "Physician-Hospital Integration Without Hospital Employment," *Healthcare Financial Management*, <http://www.allbusiness.com/health-care/health-care-facilities-hospitals/14457079-1.html>, May 1, 2010.

TABLE 10. DEBT FINANCING FOR AN EMPLOYER-BASED WORKFORCE DEVELOPMENT PROGRAM

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				
Investee	Direct loan to the Council for Adult & Experiential Learning (CAEL), a nonprofit, employer-based, workforce development program										
Investors	The Ford, MacArthur, and Joyce foundations										
Co-investors and partners	American College Testing, a nonprofit in the education and workforce development fields, became CAEL's partner in a for-profit joint venture – EdLink – after proof of concept and build-out of systems with PRI financing. EdLink helps companies provide and pay tuition for continuing employee education.										
Public sector	CAEL has received modest funding from the U.S. Department of Labor.										
Structure and terms	Long-term loan (up to eight years) at 1 to 3 percent interest (with interest only for the first three years)										
Exit	Direct loans to CAEL repaid from its financial performance										
Observations	• To achieve sustainability, CAEL sells fee-based services to corporations through EdLink. • Change in management at an employer client can adversely affect continuation of the program.										
Innovation and impact	• CAEL worked with the nine hospitals and long-term care providers in its career lattice to develop and incorporate on-line learning opportunities into the educational program. This enables the hospitals and long-term care providers to increase the number of skilled professionals they employ and expand career options for hundreds of employees. • EdLink could potentially raise equity to expand its business.										

Source: Author.

HEALTH COVERAGE

For purposes of this guide, "health coverage" is an umbrella term that includes insurance and family economic security.

➤ ***Insurance*** – The Patient Protection and Affordable Care Act of 2010 promises to greatly expand health insurance coverage. But even under the most optimistic scenarios for implementation, health reform will not be immediate and not all families will be covered. Furthermore, success will depend on vigorous state implementation efforts over a period of years.

Health funders know that their states need support in creating health insurance exchanges and other infrastructure to serve the larger number of insured who will be covered under health care reform, yet there have been few impact investing

> *"We've shown that it's possible to create a group with the strength and longevity to be a sustainable 'risk pool' for health insurance. Independent work arrangements are here to stay and the market is finally recognizing that. Freelancers Union and its members are building institutions, like Freelancers Insurance Company, that will provide stability for the independent workforce for years to come."*
>
> *– Sara Horowitz, President and CEO, Freelancers Insurance Company*

THE UNINSURED AT A GLANCE

A national survey in 2009 found that 46.3 million persons of all ages (15.4 percent) were uninsured, 58.5 million (19.4 percent) had been uninsured for at least part of the previous year, and 32.8 million (10.9 percent) had been uninsured for more than a year (CDC 2009).*

Higher proportions of unemployed, less-educated, poor, and minority persons were uninsured: 59.7 percent of currently unemployed adults 18 to 64 years old and 36.4 percent of those who did not have a high school diploma were uninsured for at least part of the previous year. In general, those without a diploma were uninsured at two to more than three times the rate of those who had completed high school. Although one in three Americans self-identify as a member of a racial or ethnic minority, more than half of nonelderly Americans who were uninsured in 2008 (55 percent) were people of color (Thomas and James 2009). Finally, in New York State, significant numbers of people are eligible for public insurance but do not enroll because they are unaware of its availability, do not know they are eligible, are reluctant to accept public benefits, and for other reasons (New York State Health Foundation 2010). This is true in most other states as well.

The recession has greatly exacerbated this situation. For every 1 percent increase in the national unemployment rate, an estimated 1.1 million people lose their insurance and state budgets suffer 3 to 4 percent decreases in revenues (The Henry J. Kaiser Family Foundation 2009a and 2010). The resulting budget crises lead to cuts in safety net services, although, until now, federal funding for extended unemployment insurance and upgrading of state benefits systems has partially offset the cuts.

The employed are also affected. Health insurance premiums have risen much more rapidly than the inflation rate. As a result, employees' coverage is subject to disadvantageous cost-sharing formulas. In addition, employers may shift to part-time, uninsured workers.

The consequences of these circumstances include increased morbidity and mortality for the uninsured and higher health care costs for all. A study by Harvard Medical School and Cambridge Health Alliance estimated that lack of health insurance causes 44,789 excess deaths annually, after accounting for education; income; and many other variables, including smoking, drinking, and obesity. This represents a 40 percent excess death rate, exceeding common killers such as kidney disease (Cecere 2009). The higher mortality reflects not only a frayed safety net, but also the fact that the uninsured do not seek preventive care that might preclude medical problems or keep small problems from becoming much worse. By the time the uninsured seek help, the care they receive is more complex, expensive, and often less effective. Health care providers, including emergency departments and community health clinics, must absorb the consequences of delayed care, as well as the higher costs (Groman 2004).

These factors, along with rising chronic disease rates that exact higher household health care costs, are jeopardizing the financial security of scores of American families. Illness or medical bills contributed to 62 percent of all bankruptcies in 2007, a 50 percent increase from findings in a similar survey in 2001 by the same researchers (Himmelstein et al. 2009). Since then, increasing numbers of families have had to choose between housing and health expenses. Those who lose their homes frequently cite medical expenses as a cause; in a vicious cycle, many then experience depression or other additional health risks (Pollack et al. 2010).

Independent workers increasingly lack access to employer-based health insurance. The self-employed often earn too much to qualify for public health insurance but too little to be able to afford high-quality individual plans. As a result, they may go without coverage, compromising both their health and financial stability (Robert Wood Johnson Foundation 2010).

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*See also Cohen, Robin A., and Michael E. Martinez, National Center for Health Statistics, "Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, January–March 2010," <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201009.htm>, June 2010.

TABLE 11. EQUITY FOR A NONPROFIT'S WHOLLY-OWNED HEALTH INSURANCE COMPANY

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

Investee	Senior debt to the Freelancers Union, a nonprofit organization that owns the for-profit Freelancers Insurance Company, a health insurer in New York State. The union down-streamed PRI loan proceeds as equity into this subsidiary.
Investors	• The Ford, Prudential, and New York State Health foundations
Co-investors and partners	• New York City Investment Fund • Grantors: Rockefeller and Robert Wood Johnson foundations
Public sector	Periodic grants from the City of New York and staff training from the U.S. Department of Labor
Structure and terms	Varies by funder. The Ford Foundation PRI is typically a 10-year loan at 1 percent interest (with interest only for the first seven or eight years).
Exit	Repayment through dividends from the insurance company, which is on track to turn a profit in its second year
Observations	• Investors are motivated by a range of aligned goals. The New York State Health Foundation was interested in expanded coverage within the state, the Ford Foundation in workforce supports, and the Prudential Foundation in financial product innovation to strengthen family economic security. • The Ford and Prudential foundations, which were experienced PRI lenders, shared their due diligence and perspective with the New York State Health Foundation, a less experienced PRI lender. • On behalf of national members beyond New York State who are not eligible for coverage by Freelancers Insurance Company, the Freelancers Union negotiates for better rates and terms from other insurers.
Innovation and impact	• Expanded insurance coverage to an underserved population • Better insurance terms for members of the Freelancers Union • Product innovation by the Freelancers Insurance Company included comprehensive mental health benefits • A replicable model for increasing access to quality health insurance coverage

Source: Author.

opportunities that directly improve access to coverage. A range of impact investments, however, support family economic security. Investments in CDFI banks and credit unions can support savings products or safe consumer debt as funding sources for health-related expenses. Other impact investments support the growth of small businesses whose jobs offer partial or full health benefits.

The Brooklyn, New York-based Freelancers Union advocates on behalf of its members nationwide. To provide them with better health insurance coverage and more competitive rates, the nonprofit union created a for-profit, wholly owned health insurance subsidiary, Freelancers Insurance Company (FIC). The New York Investment Fund, Prudential Social Investments, and the Ford Foundation and New York State Health Foundation extended PRI loans for this purpose. The union combined those proceeds with grants from the Rockefeller Foundation and Robert Wood Johnson Foundation and some of its own cash, reinvesting or "downstreaming" the entire amount as equity in FIC. The subsidiary provides affordable, comprehensive health insurance to about 21,000 freelancers, their spouses, and dependents who reside in New York State (Robert Wood Johnson Foundation 2010). It was on track to be profitable in 2010, the second year of operations (Sena 2010). The insurer pays dividends to the Freelancers Union, which uses the cash to repay its PRIs at modest interest rates. The union also helps its more than 130,000 members outside the state find affordable health care insurance.

➤ ***Family economic security*** – The earliest impact investments focused on providing debt and equity to fill credit and capital gaps. Since the 1990s, foundations have recognized a need to augment these investments with others that help low-income families build assets. Assets in the form of home ownership, various types of insurance, or savings are a source of cash that families can tap to enhance their economic prospects – for example, pay for education or establish a small business – or to meet household expenses. For the uninsured or underinsured, accumulated assets are a critical resource for purchasing preventive and emergency health care.

Foundations use a range of impact investing strategies to reinforce family economic security. Among them are insured deposits or equity investments in mission-driven depositories, venture capital in providers of alternative financial services, and equity in small businesses that create jobs with good benefits for low- to moderate-income workers.

The most straightforward strategy is to place insured deposits in CDFI banks or credit unions, or in other family-friendly depositories. The Annie E. Casey Foundation, Heron Foundation, W.K. Kellogg Foundation, and Russell Family Foundation, among many others, place such deposits to support the non-predatory credit and financial services these institutions provide to local, low- to moderate-income customers, many of whom are people of color. The deposits can be in market-rate or below-market-rate accounts. Depending on the amount, terms, and pricing of deposits, they may lead to a relationship between the depository and foundation that stimulates greater outreach to local residents who need banking services. For example, foundations may place so-called linked deposits in banks to guarantee selected loans, reduce the interest rate on those loans, or both. Through December 31, 2013, federally insured banks and credit unions will offer deposit insurance of up to $250,000 per depositor (Federal Deposit Insurance Corporation 2010); thus, investments up to that amount are virtually risk-free.[16]

A second strategy for foundations is to place equity or an equity equivalent investment in selected development banks and credit unions. As regulated depositories, banks and credit unions are required to maintain certain levels of equity as a cushion against losses. Depositories typically leverage equity investments 5 to 10 times with deposits, which fuel their lending. As loans are repaid, a depository relends the funds multiple times, prudently generating high multiples of leverage on these investments. Profits are unlikely to increase significantly as a result of equity investments because the depositories often combine costly technical assistance with their standard product offerings, or use new investment to fuel expansion into additional, distressed communities. They are also unlikely to be bought out or hold an initial public offering, although this may happen at a small number of development banks. Therefore, these types of investments by foundations are typically structured as long-term PRIs with expected high social return and below-market rates of financial return on a risk-adjusted basis.

A third strategy is to invest equity in responsible, alternative financial services, an emerging field that helps unbanked and underbanked families achieve financial security. Such services include small consumer loans and remittances, similar to what payday lenders and check cashers offer. The mission-driven providers of these services offer quality, affordable services in a range of venues, including on the Internet, at financial services kiosks, and via mobile phone (Federal Deposit Insurance Corporation 2009).

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[16] The Federal Deposit Insurance Corporation (FDIC) insures bank deposits and the National Credit Union Share Insurance Fund insures deposits in credit unions. The innovative Certificate of Deposit Account Registry Service extends FDIC insurance by up to $50 million per depositor for qualifying banks, but not for credit unions. Despite such insurance, a foundation that pledges a deposit to guarantee loans may suffer losses if a borrower defaults and the guarantee is used to repay the lender.

Omidyar Network made a direct investment in CircleLending, an on-line support service (subsequently purchased by Virgin Group PLC) for lending between family members. Omidyar Network describes itself as a philanthropic investment firm that works across social and business sectors. Through a 501(c)(3) independent foundation, it makes grants to nonprofit entities, as well as PRIs and MRIs to for-profit companies. Through a limited liability company (LLC), it makes selected investments in for-profit companies that are fully aligned with the Omidyar Network mission but in which it may choose to take high-risk positions and/or seek commercial co-investors that could be challenging to reconcile with the range of IRS regulations for private foundations (Mason 2011). In addition to CircleLending, Omidyar Network, through its LLC, invested in Prosper.com, a leading person-to-person, Internet-based lender whose services enable clientsto consolidate medical debt.

OMIDYAR NETWORK APPROACH

"As a philanthropic investment firm, we support market-based approaches with the potential for large-scale, catalytic impact. Toward that end, our investing style transcends typical boundaries that separate for-profit investing and traditional philanthropy. Because we believe that each sector has a role, we make investments in for-profit companies as well as grants to nonprofit organizations. Regardless of the sector, we invest in organizations that have the potential to embody innovation, scale, and sustainability or help bring them about within their industry" (Omidyar Network 2010).

Elsewhere, Univision partners with – and the W.K. Kellogg Foundation and Goldman Sachs have invested in – Core Innovation Capital (2010), which provides venture capital to early-growth, for-profit companies with "scalable, technology-driven solutions focused on delivering the highest value to underbanked people." Some impact investors are interested in investment opportunities that can help financially distressed families reduce their medical debt. Apart from CDFI credit unions, there are no well-known examples. PaymentClinic, a young venture that has not received any reported impact investments to date, is an automated clearinghouse for consumers to receive a discount on unpaid medical bills without having to deal with billing departments and collection agencies (MoneyRates 2010).

A fourth strategy for promoting family economic security is to invest private equity in companies that are committed to providing good benefits, including benefits for low- to moderate-income employees. Two venture capital funds – Pacific Community Ventures and SJF Ventures (described in greater detail under "Jobs, Income, and Benefits") – invest in such companies.

TABLE 12. INSURED DEPOSITS IN BANKS AND CREDIT UNIONS TO PROMOTE SAFE FINANCIAL SERVICES AND LOANS

Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
PRI						MRI				

INVESTMENT FACTORS	
Investee	Insured depositories (banks and credit unions)
Investors	The Casey, Gaylord & Dorothy Donnelley, Kellogg, Heron, KL Felicitas, and Russell Family foundations, among others
Co-investors and partners	Many individual and institutional social investors, including national insurance companies, pension funds, governments, and faith-based investors, place insured deposits in CDFI banks and credit unions.
Public sector	• Capital source: CDFI Fund • Incentives, guarantees, and insurance or credit enhancements for transactions: the New Markets Tax Credit Program, Small Business Administration, U.S. Department of Agriculture, Bureau of Indian Affairs, Federal Housing Administration, and various state programs
Structure and terms	Insured deposits priced at market or below-market rates. For qualifying banks under the Certificate of Deposit Account Registry Service, or CDARS (see Glossary), the deposits can be federally insured up to $50 million.
Exit	Deposits are generally placed in certificates of deposit (CDs) with fixed maturity dates. The CDs are fully liquid and can be withdrawn at any time. Generally, returns are slightly lower at credit unions than at banks.
Observations	Foundations may pledge their deposits as guarantees for loans to local nonprofit organizations or small businesses. Such deposits are fully at risk if the guaranteed loans default.
Innovation and impact	In the low- to moderate-income and minority urban and rural communities where they operate, CDFI banks and credit unions usually provide a broad spectrum of deposit services and loans: • The banks typically lend to small businesses, a significant portion of which are minority-owned, and provide single-family and multifamily mortgages, make home improvement and faith-based loans, and lend to nonprofit organizations. • Credit unions are more active as consumer lenders. They provide some mortgages and small business loans. • CDFI banks and credit unions both provide first-time bank accounts and some payment services. Many of them offer a range of products and services to encourage savings – including low-cost payment and remittance services, financial literacy programs, and Volunteer Income Tax Assistance sites – to help eligible families receive earned income tax credit and other benefits.

Source: Author.

TABLE 13. EQUITY AND EQUITY EQUIVALENT INVESTMENTS IN BANKS AND CREDIT UNIONS

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

INVESTMENT FACTORS	
Investee	Direct equity investment in a CDFI bank or an equity equivalent investment in a CDFI credit union
Investors	The Ford, MacArthur, Heron, Rockefeller, Kellogg, and Prudential foundations
Co-investors and partners	• Banks motivated by the Community Reinvestment Act • Faith-based investors
Public sector	• Capital source: CDFI Fund • Incentives, guarantees, and insurance or credit enhancements for transactions: New Markets Tax Credit Program, Small Business Administration, U.S. Department of Agriculture, Bureau of Indian Affairs, Federal Housing Administration, and state programs
Structure and terms	• Banks or bank holding companies: common or noncumulative perpetual preferred stock, which typically carries a dividend rate or coupon but no guarantee that dividends will be paid or the principal repaid • Credit unions: deeply subordinated debt ("secondary capital") that serves as equity. Such equity is an equity equivalent investment (see Glossary) • Lock-up period of at least five to seven years, generally longer • Double-digit or greater returns are often projected. However, they will be difficult to achieve, given the protracted recession and depository focus in distressed urban and/or rural communities. • Investment in a CDFI depository is typically, though not always, structured as a PRI.
Exit	Negotiated on a case-by-case basis. Repayment may come from retained earnings and new capital or from the sale of the bank. Initial public offerings have been rare.
Observations	• Banks and credit unions are regulated depositories. As such, they can raise significant sums of insured deposits that fuel lending, and provide retail financial services. • These institutions must comply with significant regulatory requirements, including some regarding capital levels.
Innovation and impact	• Generally, compared with conventional banks, CDFI banks and credit unions can document much higher levels of lending and financial services they provide in low- to moderate-income communities.[17] • CDFI banks and credit unions typically leverage equity investments at least eight times by lending and relending insured deposits.

Source: Author.

[17] The National Community Investment Fund (http://www.ncif.org) and National Federation of Community Development Credit Unions (http://www.cdcu.coop) are intermediaries that represent CDFI banks and credit unions.

HEALTHY COMMUNITY

Given the mounting evidence that socioeconomic and environmental factors drive health outcomes, many health funders apply a place-based or community development lens to their strategies and programs.

Work by a range of advocates and providers reinforces this approach. PolicyLink, a national research and action institute, has helped the public health and community development sectors understand, in practical terms, how physical environments and social determinants of health powerfully influence the choices people make in terms of healthy behavior and preventive care.[18] Catholic Healthcare West, one of the nation's largest safety net providers, applied rigorous science in developing its Community Need Index for purposes of public health programming. According to the mission-driven organization, "A comprehensive and standardized assessment of community need is a prerequisite to the strategic allocation of resources by hospitals, health care organizations, private foundations, and public health systems" (Catholic Healthcare West 2005). Increasingly, public efforts are also providing helpful direction and incentives. These efforts include the Healthy People, Healthy Places initiative at the U.S. Department of Health and Human Services (HHS); reports on disparity by the Center for Disease Control and Prevention; and the Sustainable Communities Initiative, Choice Neighborhoods, and Promise Neighborhoods programs at the U.S. Department of Housing and Urban Development.

A place-based approach complements many health funders' geographical mandate. They are positioned to advance HHS' Healthy People 2010 vision, according to which healthy community:

> …continuously creates and improves both…physical and social environments, helping people to support one another in aspects of daily life and to develop to their fullest potential. Healthy places are those designed and built to improve the quality of life for all people who live, work, worship, learn, and play within their borders – where every person is free to make choices amid a variety of healthy, available, accessible, and affordable options (CDC 2010c).

An updated version of this framework, Healthy People 2020, offers further guidance on how to achieve healthy community. Its goals are to avoid preventable disease, disability, injury, and premature death; pursue

HUMAN CAPITAL: INVEST EARLY FOR THE HIGHEST RETURN

Over the last four decades, American children in disadvantaged environments have received cognitive and emotional stimulation through a variety of enrichment programs. According to researchers, these children, compared to those who did not receive such enrichment, perform better at school and have higher test scores. In addition, they are:

- less likely to drop out of school,
- more likely to graduate from high school and attend college,
- less likely to be teenage mothers and foster a new generation of deprived children,
- less likely to be on welfare, and
- less likely to smoke or use drugs.

A principal benefit of early childhood intervention is that it shapes noncognitive skills – behavior, motivation, and self control. However, in current policy discussions, these skills are not considered to be an important outcome of schooling (Heckman and Masterov 2007).

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[18] See Bell, Judith, and Victor Rubin, "Why Place Matters: Building a Movement for Health Communities," <http://www.policylink.org/atf/cf/%7B97c6d565-bb43-406d-a6d5-eca3bbf35af0%7D/WHYPLACEMATTERS_FINAL.PDF>, 2007.

health equity and eliminate disparities; and create social and physical environments that promote quality of life, healthy development, and healthy behaviors throughout the life cycle.

The 40-year track record of impact investing offers insights on investments that can help make the healthy community vision a reality. While many successful investments have focused on the physical environment, such as affordable housing and commercial areas, more recently the emphasis has been on:

- human development – child care, education (including safe physical activity), access to healthy food, workforce development, community health centers as "medical homes," and local long-term care;
- family economic security – obtaining jobs with benefits and building savings and other assets; and
- environmental sustainability – from green building strategies and transit-oriented development that reduces energy use, to sustainable agriculture and other businesses that preserve the natural resource base of local economies and help low-income residents achieve permanent financial security.

The following sections describe impact investing opportunities that positively influence human development (mind and body); housing; jobs, income, and benefits; environmental sustainability; and community and equity.

➤ ***Human development: mind*** – There is clear evidence of the need for high-quality child care beginning prenatally. However, despite some promising models, delivery systems are not adequately developed and financed, particularly in vulnerable communities. There is also overwhelming evidence that health outcomes and income are correlated with K–12 educational outcomes. But promising models for improving educational outcomes are not yet adequately scaled.

The effect of poor K–12 educational outcomes on health has consequences that are far graver than many realize. The correlation between lifetime earnings and education level is a long-known fact. Fiscella and colleagues (2009) found that "when socioeconomic factors were added into the Framingham Risk Scoring risk assessment…the proportion of low-income and low-education patients at risk for death or disease during the next 10 years was nearly double that of people with higher socioeconomic status."[19] Given that homicide is the second leading cause of death among Americans 15 to 24 years old and that the

DROP-OUT RATES AND RELATED RISK

Nationwide, about 70 percent of students earn a high school diploma. Only 57.8 percent of Hispanics, 53.4 percent of African Americans, and 49.3 percent of Native Americans and Alaskan Natives graduate, compared with 76.2 percent of whites and 80.2 percent of Asian Americans.

High school drop-outs face long odds of landing a good-paying job in the ultra-competitive job market of the 21st century. In addition, they are:

- less healthy,
- more likely to become parents at a very young age,
- at greater risk of tangling with the criminal justice system,
- more likely to need welfare assistance, and
- generally more likely to die younger (Alliance for Excellent Education 2010).

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[19] See also ScienceDaily, "Income, Education Important Factors in Heart Disease Risk," <http://www.sciencedaily.com/releases/2009/06/090616133936.htm>, June 18, 2009.

murder and high school dropout rates are correlated, efforts to reduce risks in communities must also take violence into account (Christeson et al. 2008; Prevention Institute 2010). The effects of good education are of a magnitude that, if high school graduation were a prescription drug, it would be a "blockbuster" (Richter 2010).

To improve educational outcomes, foundations make impact investments in high-quality child care, public charter schools, and supplemental educational services. Often, their investments are through CDFI intermediaries, which provide facilities and working capital loans to organizations in these segments. For child care, such CDFIs include the Low Income Investment Fund and Self-Help Credit Union, as well as many regional CDFIs. Foundations may also make direct and equity investments in these segments – for example, through child care investments in Acelero Learning (discussed in greater detail below).

- ***The Low Income Investment Fund's ABCD Fund.*** The Affordable Buildings for Children's Development (ABCD) Fund finances child care facilities throughout California with a $14 million PRI and grant support from The David and Lucile Packard Foundation (Andrews 2009). It is part of the ABCD Initiative managed by the Low Income Investment Fund in San Francisco.
- ***Self-Help Credit Union.*** Since 1987, the credit union has lent nearly $46 million to high-quality child care providers. It is part of the National Child Care Facilities Network, which comprises CDFIs that emphasize child care lending. The network's members have provided more than $230 million in child care financing, leveraging $877 million to create or improve 3,680 centers serving more than 211,000 children nationwide (National Children's Facilities Network 2010; Wolff 2010).
- ***Acelero Learning.*** In addition to federal and state funding, this for-profit Head Start manager has received equity investments from the W.K. Kellogg Foundation; Boston Community Capital and New Jersey Community Capital, both of which are CDFIs; and private equity funds. It combines these resources to provide high-quality care to children and their families. According to Acelero Learning (2010), in one New Jersey county it:
  - increased enrollment to 506 children from 330 without any increase in federal support;
  - expanded service to 220 days per year from 190 by operating all centers year-round;
  - boosted average teacher salaries by 75 percent, to a level commensurate with salaries for teachers who have more education;
  - increased the number of family advocates to 14 from eight; and
  - established new partnerships to provide much-needed dental services.

For later stages of youth development, foundations and other socially motivated investors have invested hundreds of millions of dollars in – and leveraged billions of dollars for – high-quality charter school facilities, generally in partnership with a range of CDFIs. Some of the investments were in the form of guarantees or credit enhancement for loans and bond issuances. Examples follow.

- ***IFF.*** This regional CDFI, which serves all types of nonprofit organizations in Illinois, Indiana, Wisconsin, and Iowa, began making charter school loans in 1997 with PRI financing from The John D. and Catherine T. MacArthur Foundation. Since then, and with additional investments from The Kresge Foundation and grants for credit enhancement from the U.S. Department of Education, IFF has invested more than $23 million in – and leveraged more than $100 million for – financing for a range of charter facility needs, including predevelopment, start-up, leasehold improvements, acquisitions, and equipment. IFF pioneered the use of credit enhancement for charter school bond financing. Early on, it realized that, in addition to financing, these schools needed assistance finding, acquiring, renovating, and developing facilities. IFF has completed 14 such consulting and development projects (Logue 2010). In Chicago it has helped all approved charter schools open their doors.

TABLE 14. DEBT FINANCING IN A CHILD CARE PARTNERSHIP

INVESTMENT FACTORS	Real Assets (PRI)	Equity (PRI)	Sub-Debt (PRI)	Senior Debt (PRI)	Deposits (PRI)	Guarantee (PRI)	Deposits (MRI)	Fixed-Income: Bonds/Debt (MRI)	Public Equity (MRI)	Private Equity (MRI)	Real Assets (MRI)

INVESTMENT FACTORS	
Investee	The Low Income Investment Fund (LIIF), a national CDFI founded in 1984 whose mission is to alleviate poverty. With $625 million in assets under management, LIIF has provided more than $840 million in 26 states to support housing, child care, schools, and other community facilities. It has leveraged an additional $5.3 billion in public, private, and philanthropic investments.
Investors	The Packard Foundation, for the ABCD Fund at LIIF. The ABCD initiative creates more affordable and high-quality child care slots in California. Multiple foundations and other investors lend to LIIF for housing, charter school, healthy food, and nonprofit facilities projects.
Co-investors and partners	• Banks motivated by the Community Reinvestment Act • Socially motivated insurance companies and pension funds • Faith-based investors
Public sector	CDFI Fund, New Markets Tax Credit Program, Community Development Block Grants, and city and county redevelopment funds. LIIF has contracts with public agencies, including First 5 Alameda, First 5 California, and the City and County of San Francisco, to support child care development work.
Structure and terms	• A $12 million PRI loan with only the interest paid for the first eight years. Components of this loan include: • A $10 million loan at 1 percent interest for 9.5 years. This loan is the main source of capital for high-risk activities – predevelopment, acquisition, and construction in, and permanent loans to, the child care sector. • A $2 million forgivable loan at 0 percent interest for the ABCD Fund: 1) $1 million over 14 years to leverage up to $20 million in New Markets Tax Credits or other capital from private investments in the fund, and 2) $1 million – $250,000 in predevelopment loans over eight years and $750,000 in permanent loans over 9.5 years – for credit enhancement of high-risk loans by the ABCD Fund to activate projects. • The Packard Foundation provided $750,000 as a planning grant and to support LIIF operations.
Exit	Repayment from LIIF's successful loan performance, supported by loan loss reserves
Observations	Given the tight margins of child care programs, private capital must be accompanied by policy efforts to ensure that public subsidies remain available to complement PRI and other private investments.
Innovation and impact	• The ABCD Fund leveraged a $10 million, first-of-its-kind investment from the insurance industry for early-child care and education facilities. • $18 million in loans to child care centers since 2003 created more than 2,000 slots for low-income children.

Source: Author.

TABLE 15. PRIVATE EQUITY INVESTMENT IN EARLY CHILDHOOD EDUCATION

INVESTMENT FACTORS	PRI: Real Assets	PRI: Equity	PRI: Sub-Debt	PRI: Senior Debt	PRI: Deposits	PRI: Guarantee	MRI: Deposits	MRI: Fixed-Income: Bonds/Debt	MRI: Public Equity	MRI: Private Equity	MRI: Real Assets

Investee	Acelero Learning, a for-profit Head Start manager operating in New York State, New Jersey, and Nevada
Investors	W.K. Kellogg Foundation
Co-investors and partners	Boston Community Capital, New Jersey Community Capital, and selected market-rate private equity funds
Public sector	Federal Head Start grants and state child care funds
Structure and terms	Stock is structured to pay a preferred dividend and appreciate in value as Acelero expands operations and generates profits. While traditional venture capital seeks returns of 40 percent or more, a low double-digit return is more likely from companies such as Acelero that focus on providing quality services to a low-income customer base using revenue from government sources.
Exit	When Acelero reaches a sufficient scale of profitable operations years in the future, it may cash investors out with a dividend compounded annually, or management may choose to sell Acelero to a larger company that would reliably carry on the mission. Other less likely alternatives: Acelero might create an employee stock ownership plan or undertake an initial public offering. Investor return could be in the double digits, depending on Acelero's scale at the time of exit.
Observations	By wrapping federal Head Start funds together with state child care funds, and using technology to achieve economies of scale across its multistate operations, Acelero can generate revenue to support salaries for high-quality teachers and access to dental care and other necessary services for its customers.
Innovation and impact	This effort leverages the $6.5 billion Head Start program that has provided early childhood education to more than 25 million poor children since 1965. While many Head Start grantees are high-quality providers of child care, each year more than 15 percent of Head Start providers are identified as deficient in some way. Acelero initially partnered with many of the latter to help them become high performing, then began to apply for Head Start charters that came up for bid.

Source: Author.

CREDIT ENHANCEMENT

Credit enhancement in the form of loan and bond guarantees, subordinated loans, or insurance provided by public and private sources is reassuring for investors. It constitutes one or more layers of protection between their investment and potential credit losses from a project or organization.

Because credit enhancement reduces the real or perceived risk of financings, borrowers have greater access to capital and can obtain it at lower interest rates. This is critical for many nonprofit organizations, including charter schools, which typically lack access to the low-cost financing available to school districts through general obligation bonds.

To partially offset this disadvantage, the U.S. Department of Education operates a charter school credit enhancement program through which CDFIs and other entities receive grants to be used for credit enhancement of loan and bond financing for school facilities.

- ***KIPP Houston and Aspire Public Schools.*** The Bill & Melinda Gates Foundation provided credit enhancement for bond issues by charter management organizations (CMOs) in Texas and California that operate high-quality, college-prep charter schools for low- to moderate-income and minority students. The foundation committed up to $30 million to match commitments of up to $27 million in local philanthropic support and up to $3 million from the Local Initiative Support Corporation, a national CDFI. The aggregate commitments of up to $60 million can serve as credit enhancement for up to $300 million in bond issues by KIPP Houston and other local, high-quality CMOs (Bill & Melinda Gates Foundation 2009). In California, the Gates Foundation and the Helen and Charles Schwab Foundation each committed $8 million in guarantees – and NCB Capital Impact, another national CDFI, pledged $1 million – to credit enhance a $93 million bond issue by Oakland-based Aspire Public Schools. The financing included $4 million from Sequoia Union High School District, the first contribution ever made by a school district to a CMO under Proposition 39, a voter-approved state measure that orders equitable sharing of public school facilities by district and charter schools (Bill & Melinda Gates Foundation 2010). The credit enhancements enabled the Texas and California CMOs to obtain bond financing amid a severe market contraction resulting from the global credit crisis. By reducing the bonds' riskiness, the credit enhancements also lowered their interest rates. Cost savings for KIPP Houston on its initial $67 million bond were an estimated $10 million (Bill & Melinda Gates Foundation 2009) and the savings for Aspire Public Schools nearly $12 million over the 35-year life of the bonds (Bill & Melinda Gates Foundation 2010).
- ***KIPP Delta.*** Southern Bancorp, a CDFI bank holding company in Arkadelphia, Arkansas, that has equity investments from the Rockefeller Foundation, Walton Family Foundation, Ford Foundation, and W.K. Kellogg Foundation, recruited and financed KIPP Houston to launch the KIPP Delta Charter School in the rural town of Helena-West Helena, population 15,000. KIPP Delta opened in an abandoned train station and soon expanded into other nearby vacant buildings on the town's main street. Its first graduating class achieved a 100-percent college matriculation rate – this in an almost exclusively African-American student body whose academic scores had typically been in the 15th percentile. KIPP Delta plans to open a total of 12 charter schools in the region (Baldwin 2009).

Foundations also make impact investments in a range of supplemental educational services and youth development projects, which often sponsor important health-related programs, such as efforts to prevent violence and tobacco use. Finally, through CDFIs, foundations have been leaders in financing shelters and other supports to protect vulnerable youth and their families from violence.

The Hutton Parker Foundation in Santa Barbara, California, has extended several direct loans to local Boys & Girls Clubs and other youth organizations. With PRIs from the Ford Foundation, The John D. and Catherine T. MacArthur Foundation, The Kresge Foundation, and other foundations, the

TABLE 16. FOUNDATION GUARANTEES FOR CHARTER SCHOOL BOND FINANCING

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

INVESTMENT FACTORS	
Investee	KIPP Houston and Aspire Public Schools: each is a charter management organization (CMO) that expanded its network of charter schools through bond financing.
Investors	Bill & Melinda Gates Foundation, and Charles and Helen Schwab Foundation
Co-investors and partners	CDFIs managed the underlying relationship between these CMOs and investors. They also provided partial guarantees. For the KIPP Houston bond, the Local Initiative Support Corporation performed this function; for the Aspire Public Schools bond, NCB Capital Impact did.
Public sector	U.S. Department of Education's Charter School Facilities Credit Enhancement Program, which provided grants to the intermediaries
Structure and terms	Guarantees are a special form of PRI that can be counted against a private foundation's distribution requirement only to the extent that funds are disbursed. Some private foundations disburse guarantee funds into intermediaries or reserve accounts to count the disbursed amounts as part of the foundation's payout. Other foundations may not disburse funds, although they may take steps to qualify the guarantee as a PRI so it can count as a qualifying distribution if the loan or bond defaults and the guarantee is called. These CMO bond financings include: • 10-year guarantee terms, although the bonds do not mature for at least 30 years; and • no interest or fees for foundation unfunded guarantees (pledges of corporate assets)
Exit	If the underlying bond performs, the guarantee will not be called and the amounts pledged will be unencumbered after the guarantee's 10-year term.
Observations	• High-growth CMOs scale to a point where their financing needs outstrip what is available from CDFIs or most banks. Individual bond issues can be $10 million to $100 million. At this scale, CMOs typically need financing from the tax-exempt bond market. • CMO growth plans often require new facilities for an anticipated but uncertain increase in enrollment. Such uncertainty results in lower bond ratings and higher borrowing costs, which a foundation's credit enhancement seeks to mitigate. • Foundations can guarantee any type of debt – a bank loan, a CDFI loan, or a bond. Early-stage charter schools and other community-based nonprofit projects often benefit from foundation guarantees, which improve access to and lower the cost of financing from third-party sources. • Foundations or other guarantors can charge fees for their guarantees. They can also charge interest on any amounts of a guarantee that is called if the underlying loan defaults. • Some states provide credit enhancement for charter school financing. Others are exploring this possibility, as well as the possibility of collaborating with foundations to provide it.
Innovation and impact	• Quality charter schools and CMOs prepare students for college admission and graduation. They actively evaluate student performance to ensure these results. • Charter schools may have a special curriculum that reinforces health funder goals. Examples are Codman Square Academy and the Edward M. Kennedy Academy for Health Careers in Boston, both of which focus on health care, and High Tech High in San Diego. • Charter schools often use green design techniques and function as community centers and catalysts for local community development. They may include health centers and summer camps. • For every level of improved bond rating as a result of credit enhancement, CMOs and charter schools save about 50 basis points (0.5 percent), which adds up to $1.5 million on a 30-year bond for a facility that will cost $10 million. The savings are much greater for larger projects, freeing up tens of millions of dollars to pay for high-quality teachers and other educational expenses.

Source: Author.

Nonprofit Finance Fund has provided financing for facilities and working capital to a range of school-, education-, and youth-focused nonprofits across the country, in addition to operating a national partnership to help Boys & Girls Clubs maintain their facilities. It is one of many CDFIs nationwide that use PRIs from foundations to finance organizations that provide shelter for battered women and children, along with other services to reduce violence and its effects.

> ***"American society has become 'obesogenic,' characterized by environments that promote increased food intake, non-healthful foods, and physical inactivity. Policy and environmental change initiatives that make healthy choices in nutrition and physical activity available, affordable, and easy will likely prove most effective in combating obesity" (CDC 2010d).***

➤ ***Human development: body*** – The causes and consequences of obesity in American society are urgent matters requiring a comprehensive response. The Centers for Disease Control and Prevention urges the creation of environments that promote physical activity and provide access to affordable, nutritious food. Numerous foundations are collaborating nationwide in the Convergence Partnership to promote healthy, active lifestyles. Creating neighborhoods, workplaces, schools, and child care centers "that support healthy decisions" is necessary to prevent disease, according to the partnership. "It requires change in both the food environment – including how food is grown, processed, distributed, and sold – and the physical environment – from how neighborhoods are built to the transportation systems that serve them" (Bell and Dorfman 2008).[20]

There are impact investing models and policy supports to build healthy communities that have access to affordable, regionally grown fresh food, pedestrian-friendly and transit-oriented development, and nutritious meals and safe physical exercise in public schools.

With momentum from First Lady Michelle Obama's Let's Move! campaign, which aims to eradicate the epidemic of childhood obesity within a generation, HHS (2010) announced the $400 million Healthy Food Financing Initiative. A partnership comprising HHS and the U.S. Treasury and Agriculture departments, the initiative aims to eliminate food deserts nationwide within seven years. It plans to leverage private investment to bring grocery stores and other healthy food retailers to as many as one-fifth of the country's food deserts, create thousands of jobs in struggling urban and rural communities, and establish market opportunities for farmers and ranchers. Although the impact investing models that increase access to healthy food may be complex and call for guarantees, subsidies, and tax credits, they have been tested; the challenge will be to replicate them. Among these models are the Fresh Food Financing Initiative,

FOOD DESERTS

Communities without access to fresh, healthy food – "food deserts" – are typically economically distressed areas served by fast food restaurants and convenience stores that offer little or no fresh produce.

Your Food Environment Atlas (http://maps.ers.usda.gov/FoodAtlas), a tool from the U.S. Department of Agriculture (USDA), identifies counties with a high percentage of residents who have low incomes and live more than one mile from a grocery store. Nationwide, according to USDA estimates, 23.5 million people, including 6.5 million children, live in such areas. Of the 23.5 million, 11.5 million are people in households with incomes at or below 200 percent of the poverty line. Of the 2.3 million people living in low-income rural areas that are more than 10 miles from a supermarket, 1.1 million have low incomes (HHS 2010).

[20] For more information about the Convergence Partnership, visit http://www.convergencepartnership.org.

Revolution Foods, Part of the Solution, Urban Juncture, and RSF Social Finance. Models that support safe physical activity include Playworks, revitalization of neighborhood recreation spaces, and broader efforts to design communities that promote pedestrian and bicycle transportation.

- ***Fresh Food Financing Initiative.*** With PRIs from the Ford Foundation, The John D. and Catherine T. MacArthur, and F.B. Heron Foundation, and investments by a broad range of other faith-based, institutional, and individual investors, The Reinvestment Fund (TRF) has established a track record for impact and innovation. A Philadelphia-based, regional CDFI founded in 1985, TRF now manages nearly $700 million in assets that it lends for affordable housing, small business and neighborhood commercial development, charter schools, and social services organizations (Berger Bradley 2010). It spearheaded efforts to establish fresh food markets in urban and rural communities, first across Pennsylvania and then across the country. Pennsylvania's Fresh Food Financing Initiative is a public/private partnership that provides one-time grant and loan financing to help fresh food retailers overcome the higher initial barriers they encounter when entering underserved, low-income urban, suburban, and rural communities. Partners in addition to TRF are The Food Trust, a Pennsylvania nonprofit whose mission is ensuring that everyone has access to affordable, nutritious food; the Pennsylvania Department of Community and Economic Development; and the Greater Philadelphia Urban Affairs Coalition. The Fresh Food Financing Initiative also supports renovation and expansion of existing stores so that they can sell healthy foods.

  As of June 2010, TRF had committed $85.3 million in grants and loans to 85 supermarket projects in about 30 Pennsylvania counties. These projects, ranging from 900 to 69,000 square feet in size, were

INVESTING IN COMMUNITY FRESH FOOD

➤ ***Pennsylvania Fresh Food Financing Initiative*** – By providing one-time loans and grants to develop, expand, or renovate retail outlets that sell fresh food, this effort seeks to improve access to healthy and affordable foods in the state's underserved areas. Outcomes to date include:

- 85 new or renovated stores;
- 1.7 million square feet of new or renovated commercial space;
- $194 million in total project costs;
- $73.2 million in loans and $12.1 million in grants;
- 5,000 jobs created or retained;
- more than 500,000 residents served;
- a 4 to 7 percent increase in the values of nearby homes (under normal real estate market conditions);
- better access to food; and
- replication nationally through the federal Healthy Food Financing Initiative (The Reinvestment Fund 2008).

➤ ***Building community around healthy food*** – The Reinvestment Fund and The Food Trust partnered with Philadelphia's Community Design Collaborative on a guide to grocery store designs that foster community and health.

The guide notes that "grocery stores of previous generations provided fresh food, neighborhood gossip, and eyes-on-the-street," which make for a safer neighborhood. "Today urban food markets can also be catalysts for healthier lifestyles, sustainability, and a stronger sense of community through amenities like meeting spaces, demonstration kitchens, cafés, green roofs, and community gardens" (Infill Philadelphia 2009).

expected to yield more than 1.7 million square feet of space for retail food services, and to create or retain 5,000 jobs (Berger Bradley 2010). TRF has replicated the program in New Jersey and is sharing its experience with other CDFIs and partners to support replications in California, Colorado, Illinois, Louisiana, and New York. Advocacy by TRF, The Food Trust, PolicyLink, and the Convergence Partnership prompted the federal government to scale the program through the Healthy Food Financing Initiative it launched in 2010.

- ***Revolution Foods.*** This company provides nutritious school breakfasts, lunches, and snacks to more than 50,000 school children, 80 percent of whom qualify for free or reduced-price lunches. It has received a mix of debt and equity from DBL Investors, the W.K. Kellogg Foundation, and RSF Social Finance. Revolution Foods sponsors health food fairs and educational events in the schools it serves, and seeks to provide career track jobs with benefits to family members of children attending those schools (Groos Richmond 2009).

- ***Part of the Solution.*** Food banks are diversifying their services, in some cases teaching families about better diets and health. Part of the Solution (POTS), an emergency food and social services provider in Bronx, New York, broke ground in 2010 on a new facility that will serve more than 10,000 people annually with an array of community services, including medical and dental clinics, after-school tutoring, a supermarket-style food pantry, and nutrition education. POTS is located in the 16th Congressional District, which the Food Research and Action Center in Washington, DC, recently cited as one of the hungriest districts in the nation (Dolnick 2010). The facility was financed by the Low Income Investment Fund, a CDFI, and by JPMorgan Chase with New Markets Tax Credits. Like many CDFIs, the Low Income Investment Fund has PRIs and grants from multiple foundations, as well as investments from faith-based investors, banks motivated by the Community Reinvestment Act, and selected insurance companies.

- ***Urban Juncture.*** This new social enterprise in Chicago takes a holistic approach to community development, bringing healthy food choices, economic development, and platforms for building social capital to food deserts. The company's flagship venture, Bronzeville Cookin', is a dining destination and culinary incubator "celebrating the cuisines, cultures, and communities of peoples of African descent" (Urban Juncture 2010a). Urban Juncture plans to locate a fresh produce market alongside four restaurants in its green-certified building, a $9 million project that will greatly expand the supply of family-friendly dining options – and also generate 140 full-time jobs – in an African-American community that historically has been one of Chicago's most blighted. This venture illustrates the need for public-private partnership and flexible financing to repopulate food deserts with healthy, high-quality food choices and economic opportunity. The project obtained $3 million in tax increment financing from the City of Chicago (Urban Juncture 2010b). Private sector financing is coming from the Chicago Community Loan Fund, Urban Partnership Bank, and Chicago's Community Reinvestment Fund, all of which are CDFIs or specialized funds with significant PRIs and other types of investment from foundations, faith-based investors, and banks motivated by the Community Reinvestment Act. Discussions are underway with national banks on New Markets Tax Credits financing and structures that can monetize the city's commitment to tax increment financing.

- ***RSF Social Finance and other food-related financing intermediaries.*** In launching the Healthy Food Financing Initiative, the federal government noted that the program "will enhance access to healthy and affordable choices in struggling urban and rural communities, create jobs and economic development, and establish market opportunities for farmers and ranchers" (HHS 2010). In communities throughout the country, intermediaries are expanding their financing products; special intermediaries are being created; and some foundations are making direct investments to finance all levels of sustainable agriculture and food systems – food production; value-added processing, aggregation, and distribution; sales and marketing; retail; and waste reduction and management. RSF Social Finance and members of the Triple Bottom Line Collaborative (discussed in greater detail under "Environmental Sustainability") are intermediaries that provide financing. RSF recently launched a PRI fund to finance nonprofit and for-profit agriculture and food businesses that contribute to healthy ecological systems, urban and rural economic development, safe and equitable labor conditions, and/or better access to healthy food in underserved areas. Its loans are as small as $50,000, given the early stage of many businesses in the sustainable agriculture sector and the inherently smaller operations that firms focused on local agriculture and a small carbon footprint may choose to maintain (RSF Social Finance 2010). Members of Sustainable Agriculture and Food Systems Funders are active in grantmaking, research, and advocacy that complement and promote emerging financing strategies.

- ***Playworks and other health promotion efforts.*** Playworks, a nonprofit headquartered in Oakland, California, improves children's health and well-being by increasing opportunities for physical activity. With a PRI loan guarantee and grants from the Robert Wood Johnson Foundation, it obtained working capital financing from OneCalifornia Bank, a CDFI, to expand nationally. Playworks currently serves more than 100,000 students at 250 low-income schools in 15 cities; expansion will boost the number of such schools to more than 650 in 27 cities, and train adults to bring safe, healthy, and inclusive play to more than 1 million students by 2012 (Playworks 2010).

  The Mary Black Foundation made a loan to its home city of Spartanburg, South Carolina, to upgrade park facilities in low- to moderate-income neighborhoods as state-of-the-art community centers (discussed in greater detail under "Community and Equity"). The centers invite all city residents to come and participate in physical activity, health education, and other enrichment. In Boston, Codman Square Health Center and Dorchester House Multi-Service Center, which are both FQHCs, jointly founded DotWell to offer a broad spectrum of health promoting community services – from recreation and fitness to nutrition training and a teaching kitchen, technology and financial literacy training, and civic engagement (Figure 5).

FIGURE 5. DOTWELL: TWO FEDERALLY QUALIFIED HEALTH CENTERS SHARE A HEALTH PROMOTION VENTURE

Integrated Spectrum of Care

Codman Square ⟷ **DotWell** ⟷ **Dorchester House**

Codman Square
- Primary care
- Women's health
- Eye care
- Oral health
- Behavioral health
- Laboratory
- Radiology
- Women, Infants, and Children
- Urgent care
- School-based clinic
- Case management (social and clinical)

DotWell
- Out-of-school time programs
- Community outreach and education
- Public health initiatives
- Financial health services
- Civic engagement
- Social capital development
- Technology access/training
- College credit programs
- Food pantries
- Recreation/fitness/wellness
- Aquatics programs
- Wellness and recreation services
- Nutrition education
- HIV education and prevention services

Dorchester House
- Primary care
- Women's health
- Eye care
- Oral health
- Behavioral health
- Laboratory
- Radiology
- Women, Infants, and Children
- School-based clinic (The Harbor School)
- Pharmacy
- Urgent care
- Case management (social and clinical)

Source: DotWell 2009

TABLE 17. DEBT FINANCING FOR A FRESH FOOD INITIATIVE

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				
Investee	The Reinvestment Fund (TRF), a Philadelphia-based, regional CDFI and national leader of healthy community financing efforts, including the Fresh Food Financing Initiative (FFFI). Founded in 1985, TRF has nearly $700 million in assets under management for innovative lending for affordable housing, small-business and neighborhood commercial development, charter schools, child care, healthy food, and social services organizations.										
Investors	The Ford, Heron, and MacArthur foundations were early investors that helped TRF build its CDFI track record. Foundations did not directly invest in TRF's FFFI model, although foundation interest in the model has increased significantly.										
Co-investors and partners (private and public)	FFFI is a private-public partnership. Private partners include The Food Trust and the Greater Philadelphia Urban Affairs Coalition. FFFI's public sector partner is the Pennsylvania Department of Community and Economic Development, and it receives New Markets Tax Credits. Nonfoundation investors in FFFI and TRF generally include: • banks motivated by the Community Reinvestment Act, which provided the lead investment for FFFI; • faith-based investors; and • individual social investors.										
Structure and terms	TRF manages the FFFI, which uses subordinated or senior debt with below-market or market-rate interest. Some complex transactions combine grants, New Markets Tax Credits, and debt.										
Exit	TRF and FFFI loans are repaid based on the successful performance of fresh food markets, supported by TRF loan loss reserves and, in particular deals, any other credit enhancement.										
Observations	• The program combines government subsidies with private financing to help grocery store operators overcome barriers to opening in low- to moderate-income neighborhoods. The financing helps operators assemble attractive store sites and hire local employees. • Projected demand for retail stores in low- to moderate-income communities is often based on a higher density of households in a cash economy, versus a lower concentration of more affluent residents in higher-income neighborhoods. • Despite their proximity to local farms, many rural areas do not have access to quality, affordable, fresh food.										
Innovation and impact	• As of June 2010, TRF had committed $85.3 million in grants and loans to 85 supermarket projects in about 30 Pennsylvania counties. These projects range in size from 900 square feet to 69,000 square feet. They are expected to create or retain 5,000 jobs and more than 1.7 million square feet of retail food space. • In partnership with Philadelphia's Community Design Collaborative and The Food Trust, TRF created a guide to neighborhood grocery store designs that promotes healthy community.										

Source: Author.

TABLE 18. FUNDED GUARANTEE FOR PHYSICAL ACTIVITY

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

Investee	Playworks, a nonprofit headquartered in Oakland, California, that provides opportunities for supervised play and physical activity during recess and in after-school programs at public schools serving low-income communities
Investors	Robert Wood Johnson Foundation (RWJF) and The Jenesis Group, a small family foundation that supports social entrepreneurs
Co-investors and partners	The National Football League (NFL), which, as part of its promotion of 60 minutes of play during the day, supports Playworks in providing "Play 60 Zones" in stadiums at selected NFL games. In these youth-friendly zones, participants are led by Playworks coaches through interactive games that involve physical activity.
Public sector	• AmeriCorps • Public school districts
Structure and terms	An RWJF deposit guarantees OneCalifornia Bank's working capital loan to Playworks. The nonprofit needs working capital to pay for expenses, such as hiring, that it incurs before the school year begins, when public school clients start paying for its services.
Exit	When Playworks collects payments from client schools, it pays down the working capital loan, and the funds pledged in RWJF's guarantee can be released. If Playworks defaults on its loan, the foundation is liable for repayment of any defaulted amount.
Observations	• The working capital loans to Playworks play an essential role in its national expansion plan. This plan involves detailed business planning; financial projections; and organizational development, such as hiring an executive team, regional program officers, and program staff. In addition to its guarantee of the working capital loan, RWJF supported this process with a $23 million grant. Playworks has a sophisticated development department that raises other contributions from local and national funders, including those in the new cities where it plans to expand. • Importantly, a foundation that uses insured deposits as cash collateral or reserves for a guarantee can still experience a loss if the guarantee is called, even though the deposit is federally insured. • For private foundations, the portion of a guarantee that is dispersed – to reserve accounts or because the guarantee is called – can be counted toward their distribution requirement. Undisbursed amounts, including unfunded guarantees (corporate pledges), cannot be counted. • A private foundation that wants to count disbursed guarantee amounts as a PRI should be sure that the use of proceeds qualifies under the legal definition of a PRI.
Innovation and impact	Playworks provides active play opportunities to more than 70,000 students at 170 low-income schools in 10 cities. Its expansion will encompass more than 650 low-income schools in 28 cities and train adults to bring safe, healthy, and inclusive play to more than 1 million students by 2012.

Source: Author.

➤ ***Affordable housing*** – Families and the homeless need affordable housing to live safely and meet other basic needs. Despite the recent widespread decline in real estate values in many markets, housing is still unaffordable and unstable for many families and individuals whose resources may be depleted if they lose their job or home, or face rising health care expenses. The foreclosure crisis pushed many low- to moderate-income families out of their homes, creating greater demand for, and boosting the cost of, rental housing (Children's HealthWatch Medical-Legal Partnership 2009).

Demand for affordable rental housing is increasing at the same time that many currently affordable units are in jeopardy due to "expiring use." This occurs when owners of affordable rental units prepay their mortgages, which generally have 20-year underlying subsidies from the U.S. Department of Housing and Urban Development, or when owners do not renew underlying Section 8 rental assistance contracts (The John D. and Catherine T. MacArthur Foundation 2007). As a result, rents often skyrocket. The secondary health benefits of high-quality, affordable housing for residents throughout the life cycle are substantial and well documented, though not widely publicized.

THE AFFORDABLE HOUSING LENDING CYCLE

As any affordable housing project moves forward, the predevelopment lender is refinanced, or "taken out," by the construction lender, who in turn is taken out by a permanent mortgage. Then, the permanent mortgage is often sold to long-term institutional investors, such as insurance companies or pension funds, so cash can recycle back through the system to fund new loans.

Foundations may provide the financing at any point in this cycle, either directly or through intermediaries.

- ***Subsidized housing buffers families from food insecurity and other health risks.*** For most families, housing is the largest annual expenditure. On average, those in the lowest income quintile spend 40.5 percent of income on housing compared with 14.8 percent on food. A housing subsidy limits the percent of income spent on rent, freeing resources for other household necessities, including food (Children's HealthWatch Medical-Legal Partnership 2009).
- ***Affordable, service-enriched housing benefits homeless families and individuals.*** It serves as a platform for delivering necessary medical and other supports, greatly reducing the burden on local emergency rooms, clinics, and detention systems, and saving the public many times more than the up-front cost. The savings are most pronounced for older homeless people who tend to have more medical problems (Flaming et al. 2009).
- ***Long-term care in community settings has multiple benefits.*** This approach is not only conducive to better health, but also generates cost savings. A 2010 report described the long-term care needs of 10.9 million residents of American communities, half of them nonelderly, and 1.8 million nursing home residents, predominantly elderly. Ninety-two percent of the community residents received unpaid help; for about 13 percent, paid help was primarily funded by Medicaid or Medicare. Per-person expenditures for nursing home residents were five times higher, and national expenditures three times higher, compared with those for long-term care residents in community settings. (Medicaid plus out-of-pocket copayments primarily cover the cost of nursing home stays.) This suggests that a redistribution of spending across care settings might produce substantial savings or enable expansion of services (Kaye et al. 2010).

Housing standards and location have a significant bearing on health. Affordable housing development today seeks to incorporate green principles: using healthy and sustainable building materials; situating homes away from potential toxic environments, close to public transportation, and within walking distance of local amenities; and providing safe places to exercise and safe routes to school.

Meeting these multiple objectives can add time and cost to projects, increasing the need for the kind of flexible financing that impact investments by foundations can offer. Although this need remains great, affordable housing has been at the core of PRI, and later MRI, strategies for a variety of funders that focus on urban and rural markets. Working with CDFIs and other intermediaries, state housing agencies, skilled affordable housing developers, and policy advocates, these investors have developed effective models of affordable housing to meet a range of needs. Repayment of the investments usually relies on some form of subsidy, whether it is a low-income housing tax credit, Medicare or Medicaid payment, or a housing voucher – a type of subsidy from the U.S. Department of Housing and Urban Development that typically caps rent at 30 percent of the renter's income.[21]

Foundations often provide the risky predevelopment financing to pay for early feasibility studies of affordable housing and for design and other expenses that will not be recouped unless the project goes forward. Different types of funders have invested in different types of affordable housing (single-family or multi-family, owned or rented) in a range of communities and across asset classes and expected levels of financial return.

- ***Combating homelessness.*** The Melville Charitable Trust has financed and directly purchased several buildings to carry out its mission to find and fight the causes of homelessness. Melville's first PRI in 1992 provided the financing for St. Luke's LifeWorks to buy an abandoned YWCA in downtown Stamford, Connecticut, and launch an innovative housing program for formerly homeless mothers and children. The two entities worked for a decade to build capacity with a blend of grants, PRIs, and technical assistance from Melville. The trust established a grantee partnership with, and a trust board member serves on the board of, St. Luke's LifeWorks, which has become one of the country's leading supportive housing models.

  In 2003, through another PRI, Melville directly purchased and renovated The Lyceum, creating a 16,000-square-foot conference center in the disadvantaged Frog Hollow neighborhood of Hartford, Connecticut, that is a center for the collaborative study and creation of programs to end homelessness

SUPPORTIVE HOUSING IS COST-EFFECTIVE

Placing people in stable and supportive housing in which they also receive social services often costs about as much as, or less than, what it does to provide expensive crisis care and emergency housing to that person if he or she remains homeless.

It saved Seattle taxpayers more than $4 million a year while helping people with severe alcohol problems reduce their consumption, according to a University of Washington study published in the *Journal of the American Medical Association*. The median monthly cost to taxpayers per resident living in the street was $4,066, an amount that fell to $1,492 six months after these people moved into supportive housing. Even taking into account the cost of apartments and supportive services, the researchers concluded that supportive housing saves money.

In Maine, supportive housing reduced expenditures on mental health services by 57 percent, emergency room costs by 14 percent, ambulance transportation services by 32 percent, incarceration by 95 percent, and shelter costs by 99 percent, according to a rural homelessness study conducted by MaineHousing and the Maine Department of Health and Human Services. Per-person savings were about $1,328.

In New York City, such housing generated average annual savings of $16,282 per unit of housing constructed, according to the University of Pennsylvania Center for Mental Health Policy and Services Research. If reinvested, these savings would pay for 95 percent of the cost of developing and providing services to people who live in supportive housing (Corporation for Supportive Housing 2010).

[21] For more information on how these housing vouchers work, visit http://www.hud.gov/offices/pih/programs/hcv/about/fact_sheet.cfm.

and promote affordable housing. Two years later, the trust purchased 98 affordable housing units in a former forge across the street from The Lyceum. Extensive renovation produced a mixed-use, mixed-income complex that includes a community center and performance space, a 120-seat restaurant, a culinary training center, and a farmer's market. Melville manages the residential units, which are a mix of Section 8-subsidized and market-rate housing. The trust also purchased and manages 25 residential units in six homes across the street (Hendrigan 2010). These commercial and community activities build bridges across silos to create work and educational opportunities for residents of one of the nation's poorest neighborhoods. Elsewhere, the Ford Foundation, The John D. and Catherine T. MacArthur Foundation, and Conrad Hilton Foundation have made PRI investments in supportive housing via the Corporation for Supportive Housing and other organizations nationwide.

- ***Scaling homeownership for very low-income households.*** Habitat for Humanity International has long raised capital to provide truly affordable home ownership (monthly payments are about $300) for families living at or below 30 to 60 percent of the area's median income. In the real estate downturn, however, banks that traditionally purchased bonds to finance Habitat's work stepped back, creating a gap. The W.K. Kellogg Foundation and several other foundations and pension funds stepped in to fill this gap. Their MRI investments in Habitat's FlexCAP bonds enable Habitat to recycle its funds and purchase new homes or sites at affordable prices during the down market. The bonds are backed by heavily "over-collateralized" pools of housing mortgages to very-low-income households. The pool of mortgages supporting bond repayment is much larger than the face value of the bonds; if one mortgage defaults, other performing mortgages continue to support bond repayment. In addition, Habitat provided a 5 percent guarantee on the bonds. The FlexCAP program has enabled Habitat to continue its activities while many conventional housing builders have severely curtailed theirs. As of June 2010, Habitat ranked eighth among U.S. home builders in terms of the number of homes sold and closed. Its new home and rehabilitation closings were down only 3 percent in 2009, compared with declines of 30 to 50 percent among leading conventional home builders (Wotapka 2010).

- ***Funds that acquire sites for urban and rural housing.*** Some funds acquire sites for urban and rural housing. For example, funds in New York City, the Gulf Coast region, Los Angeles, and Oregon consist of a "capital stack," or structured pool of debt, that can be used to acquire sites for affordable housing. While structured finance has gotten a bad name in the recent credit crisis, it remains a highly effective tool for helping qualified but underserved borrowers secure financing. The "stacks" of debt typically include at least three layers, or tranches, that investors with different levels of risk tolerance provide: a "first loss" tranche, often in the form of grants or very-low-interest debt from the public sector; a "second loss" tranche of foundation PRIs; and a much larger "senior" tranche of debt from commercial banks. Depending on the location, PRIs by the Ford Foundation, The John D. and Catherine T. MacArthur Foundation, Rockefeller Foundation, Bill & Melinda Gates Foundation, and the Meyer Memorial Trust play a crucial credit-enhancement role. Because these PRIs accept a higher degree of risk and absorb any loan losses before such losses affect the senior investors, they can leverage much larger volumes of senior, market-rate debt provided by commercial investors.

- ***Rural and migrant worker housing.*** PRI-backed CDFIs have been investing for decades to mitigate the special risks in rural communities. The Rural Community Assistance Corporation, founded in 1978 and headquartered in Sacramento, California, is a multistate leader in financing safe housing, rural facilities, and infrastructure for migrant farm workers and Native American tribes. The Ford, MacArthur, and F.B. Heron foundations, as well as The California Endowment, have made PRIs in the organization's expansion. The Community and Shelter Assistance Corporation of Oregon, founded in 1988 and based in Newberg, finances a high volume of migrant worker housing and provides asset-building financial services. A PRI from the Meyer Memorial Trust supports its work.

- ***Triple-bottom-line private equity real estate funds.*** With triple-bottom-line private equity real estate funds, limited partners expect market-rate returns on real estate projects located in low- to moderate-income communities (the first bottom line). In addition, these projects revitalize the area, create jobs, and include child care and social centers as well as housing units for seniors (the second bottom line). They also incorporate transit-oriented development and green building techniques (the third bottom line), which require care to ensure that transit considerations do not result in projects being built near heavily trafficked highways that impair air quality. The Ford, MacArthur, Casey, Heron, Kellogg, and California Community foundations, among others, have invested in such projects.[22]

- ***Scaling community-based models for long-term care.*** The Robert Wood Johnson Foundation, in addition to providing PRIs to various health-related projects beginning in 1982, made strategic grants to NCB Capital Impact to develop scalable models for long-term care. The foundation illustrates how foundations can use grants to fuel the initial stages of an impact investing initiative in which they may later invest. In 1992 it gave NCB Capital Impact (then known as the NCB Development Corporation) more than $4 million in grants to develop the Coming Home model of affordable, assisted-living facilities for low-income, frail seniors in rural areas. In 1997, based on Coming Home's success, the foundation gave NCB Capital Impact a $5 million follow-on grant to work with government agencies in nine states to foster affordable, assisted-living development. The foundation awarded a separate $4.3 million grant to NCB Capital Impact to establish a revolving loan fund, which was originally conceived as a source of permanent financing that organizations would leverage with other permanent financing. However, it became apparent that a greater need was predevelopment financing; a predevelopment fund would enable local nonprofit project sponsors to pay for early-stage feasibility studies, marketing surveys, and other preconstruction costs, and also serve as bridge financing to prevent delays between project stages. Since 1997 the predevelopment fund has provided more than $8 million in financing for Coming Home projects. Altogether, Coming Home has produced 3,445 affordable units in 43 assisted-living facilities and leveraged nearly $124 million in equity, secondary financing, grants, and conventional debt for 98 projects (Muller 2010).

  A $10.5 million grant from the foundation in November 2005 enabled NCB Capital Impact to lead a five-year rapid replication of the Green House model – that is, to create 50 Green House projects (hopefully one in every state) and a self-sustaining center to foster continued adoption of the model. In this model, traditional skilled nursing facilities are transformed into homes that provide "meaning and growth for the people who live and work in them."[23] By the end of the grant in October 2010, the effort had successfully recruited and helped 50 organizations explore the idea of, build, and operate Green House homes. There are now 24 campuses with 84 homes in 15 states. Another 24 projects are in development or under construction, totaling 170 more homes in 11 more states. (Internal or local challenges prevented four other projects from moving forward.) This initiative will be self-sustaining through contract fees that NCB Capital Impact collects from those wanting to replicate the Green House model; the fees cover the direct and indirect costs of intensive technical assistance. Building upon this success, NCB Capital Impact is soliciting impact investments from a range of philanthropic and private institutions, including the Robert Wood Johnson Foundation, to finance additional Green House replication projects (Muller 2010).

➤ ***Jobs, income, and benefits*** – Jobs and income, along with the health insurance that jobs may provide, are central to family economic security and health. But living-wage jobs are often difficult to create and maintain, particularly in low- to moderate-income and minority communities. A 2009 analysis of U.S. Census Bureau data showed that companies less than five years old generated nearly two-thirds of net new jobs in 2007. It noted that just one barrier, such as limited access to credit for business growth, can cause business failure (Ewing Marion Kauffman Foundation 2009). Access to stabilizing resources, including

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[22] Other recent housing initiatives have focused on stabilizing low- to moderate-income residents who are at risk of foreclosure or eviction. See the "Community and Equity" section.

[23] The model is based on the Eden Alternative (see http://www.edenalt.org). "Instead of a large facility with many elderly residents, Green House projects create homes for six to 10 residents. Each resident gets a private bedroom and bath opening off a central area for cooking, eating, and gathering. Nursing assistants play a much broader role in the care of patients" (Robert Wood Johnson Foundation 2007).

TABLE 19. REAL ESTATE HOLDINGS OF THE MELVILLE CHARITABLE TRUST

INVESTMENT FACTORS	PRI: Real Assets	PRI: Equity	PRI: Sub-Debt	PRI: Senior Debt	PRI: Deposits	PRI: Guarantee	MRI: Deposits	MRI: Fixed-Income: Bonds/Debt	MRI: Public Equity	MRI: Private Equity	MRI: Real Assets
Investee	Real estate purchases in Connecticut for affordable and supportive housing, a homelessness study center, and mixed-used property. On this property, at-risk adults learn job-readiness and entrepreneurial skills in various social enterprises, including a restaurant, a café, and a catering business.										
Investors	The Melville Charitable Trust solely owns this real estate, but it co-invests with many other foundations in other projects.										
Co-investors and partners	St. Luke's Community Services, doing business as St. Luke's LifeWorks, a manager of high-quality, supportive housing										
Public sector	• U.S. Department of Housing and Urban Development (Section 8 vouchers) • Federal Low-Income Housing Tax Credits • Connecticut Housing Finance Authority • Local housing agencies (code enforcement and safe housing environments)										
Structure and terms	Buy and hold real estate, generally in distressed communities										
Exit	Upon sale of the real estate, although Melville may choose to hold the property for the duration of the program or indefinitely										
Observations	• Service-enriched housing substantially reduces residents' health care needs and expenses. • Long-term investment in a community builds trust and provides a rich environment to test ideas and partner with a city, community organizations, and residents.										
Innovation and impact	Programs at the trust's residential and commercial properties reconnect homeless, low-income, and underemployed people with society so that they can work their way back into housing, participate in the community, and achieve greater self-sufficiency.										

Source: Author.

TABLE 20. DEBT FINANCING FOR LONG-TERM CARE AND OTHER HEALTHY COMMUNITY PROJECTS

INVESTMENT FACTORS	Real Assets (PRI)	Equity (PRI)	Sub-Debt (PRI)	Senior Debt (PRI)	Deposits (PRI)	Guarantee (PRI)	Deposits (MRI)	Fixed-Income: Bonds/Debt (MRI)	Public Equity (MRI)	Private Equity (MRI)	Real Assets (MRI)
Investee	NCB Capital Impact (NCBCI), a national, nonprofit intermediary based in Arlington, Virginia. It has $600 million in assets under management to finance long-term care facilities and various other healthy community projects, including health centers, charter schools, sustainable agriculture cooperatives, grocery stores, affordable housing, and nonprofit facilities.										
Investors	The California Community, California HealthCare, Colorado Health, Ford, Kellogg, Rasmuson foundations, and Endowment for Health, some of which invest to support specific health care, charter school, and other community development lending programs.										
Co-investors and partners	• Robert Wood Johnson Foundation, the lead grantor for NCBCI's long-term care initiatives • Catholic Healthcare West, Sutter Health, MetLife, Prudential Social Investments, and Impact Community Capital, a consortium of insurance investors • California Primary Care Association • The California Endowment and Tides										
Public sector	• Medicare, Medicaid, New Markets Tax Credits, and federal Low-Income Housing Tax Credits for long-term care • U.S. Department of Education's Credit Enhancement of Charter School Facilities • Loan guarantees from the Human Resources and Services Administration and the U.S. Department of Agriculture • California Health Facilities Financing Authority										
Structure and terms	These vary among NCBCI's many investors. For example, the structure and terms might be grants from the Robert Wood Johnson Foundation, which NCBCI uses as loan capital; 10-year PRIs at 1 percent interest (with interest only for the first several years); or market-rate, fully amortizing debt.										
Exit	Repayment from the successful performance of NCBCI's loans, supported by loan loss reserves										
Observations	How long-term care is designed has a major effect on the stability and fulfillment of residents and workers in long-term care facilities.										
Innovation and impact	• Coming Home: 3,445 affordable units in 43 assisted-living facilities and $124 million leveraged in equity, secondary financing, grants, and conventional debt for 98 projects. • Replication on a national scale of the Green House Project – residences for 6 to 10 elders who need skilled-nursing care and want to live a rich life. To date, there are 24 campuses with 84 homes in 15 states. Another 24 campuses are under construction or in development, totaling 170 more homes in 11 more states.										

Source: Author.

credit, capital, and technical assistance, often is more difficult to come by for minority entrepreneurs and those operating in low- to moderate-income urban and rural communities (Fairlie 2010; Kriz et al. 2000). Yet investments in minority-owned firms are critical for reducing disparities, as such firms tend to hire more minority employees than white-owned firms even if they are located in majority-white communities (Rogers 2004).

Over the years, foundations have made a range of PRIs and MRIs to help create jobs in low- to moderate-income communities. The Ford Foundation, The John D. and Catherine T. MacArthur Foundation, F.B. Heron Foundation, and The Cleveland Foundation, among others, have invested equity and equity-equivalent funds (debt with equity features) and made deposits in CDFI banks and credit unions that finance small businesses and farms – many of them minority-owned – in urban and low-income rural communities. These and other foundations have also made PRIs in nonbank CDFIs for loans to and investments in small businesses, including business loan funds, microlenders, and community development venture capital funds.[24] The Cleveland Foundation, The George Gund Foundation, and other foundations have provided guarantees to mobilize small business financing from banks, particularly for minority-owned firms.

More recently, foundations have invested in transit-oriented development, in which convenient public transportation makes it easier for residents of low- to moderate-income communities to reach jobs in different areas of a regional economy. Improving access to jobs via transportation can cost less than creating new businesses and jobs in those communities.

Occasionally, foundations use PRI financing to sponsor major efforts to create jobs in particular places. An example is Evergreen Cooperatives of Cleveland, Ohio, a partnership encompassing the residents of six neighborhoods; the City of Cleveland; and other important local institutions, such as The Cleveland Foundation, Case Western Reserve University, the Cleveland Clinic, and University Hospitals. Local, worker-owned co-ops – Evergreen Cooperative Laundry, Ohio Cooperative Solar, and Green City Growers Cooperative – provide quality services to the area's large institutions, as well as living-wage, green jobs to primarily African-American residents, keeping financial resources within the community.

Impact investments by foundations can also target firms that provide benefits and a healthy workplace while promoting environmental sustainability. The venture capital funds Pacific Community Ventures and SJF Ventures invest in companies that sell health-enhancing and environmentally sustainable products, and that offer employees benefits and possibly a portion of the financial gains when the company is sold. These two funds are hybrids: they combine the capacity-building activities of a nonprofit with the market-rate-of-return investment objectives of a for-profit venture fund.

The Pacific Community Ventures (PCV) Fund provides capital and resources to high-growth businesses in California that bring significant economic gains to low- to moderate-income employees and that deliver strong financial returns to the owners and investors. This generalist, private equity fund invests across industries, with an emphasis on health and wellness; environmentally friendly products; ethnic products and services; specialty food products; and custom, low-capital-intensity manufacturing. Portfolio companies include an acquirer and manager of high-performing, independent community pharmacies, which often operate in underserved communities; a company that sells and services fire safety equipment; a destination lodge company that operates a youth development program; and organic and fair-trade food and beverage companies.

The PCV Fund's successful exit from its investment in Timbuk2, a San Francisco company that makes customized bike messenger bags, illustrates what can happen when there is a commitment to build wealth among low- to moderate-income workers. The sale of Timbuk2 distributed more than $1 million to 40

[24] In a widely publicized 2009 move, the investment bank Goldman Sachs committed $500 million to small business lending in partnership with CDFIs. For details, see http://www2.goldmansachs.com/citizenship/10000-small-businesses/index.html.

employees in a one-time bonus equaling as much as twice the annual pay each employee received based on tenure, grade level, annual salary, and performance. More than half of the workers who got a payout held factory and warehouse positions, and resided in low- to moderate-income communities (Rallo 2010). The fund's affiliated nonprofit, Pacific Community Ventures, conducted financial management workshops on-site to help employees understand the options for investing and saving their payouts – through Timbuk2's 401(k) retirement savings plan, a 529 education savings plan, and other personal investment tools.

SJF Ventures invests equity in expansion-stage companies that address global and local issues, such as energy and climate change, with compelling solutions and by effectively engaging employees. When SJF Ventures assesses investment opportunities, it selects teams, markets, and business models that can achieve rapid sales, strong profitability, and premium exits. Its portfolio companies cover a range of business sectors – high-quality child care services in urban communities; health care media; skin care products; renewable energy and efficiency, recycling, grid, and infrastructure technologies; irrigation, fertilization, and on-site waste water systems; and the use and sale of recycled materials.

One of the portfolio companies SJF Ventures recently sold was Salvage Direct in Titusville, Pennsylvania, to QCSA Auto Auctions in Davenport, Iowa, the nation's largest independent salvage auction company. The private equity firm Kinderhook Industries and debt provider Amalgamated Capital funded SJF Ventures' takeout. Consolidation of Salvage Direct and QCSA created the third-largest company in the salvage vehicle auction industry. Salvage Direct pioneered the industry's on-line auction and today operates exclusively through a unique, Web-based business model. Since SJF Ventures led the second round of equity financing, Salvage Direct has grown to 145 employees from 27, and it now has a network of more than 80 facilities in 28 states. In 2009, as part of a clean technology approach, the company increased its utilization and efficiency of metals recycling and parts reuse for about 50,000 vehicles (Broughton 2010).[25]

SJF Ventures also recently exited Ryla, a leading call center provider headquartered in Kennesaw, Georgia, through a strategic investment by Alorica, another call center company in Chino, California. Both are certified minority business enterprises. SJF Ventures provided Ryla's first institutional investment when it had fewer than 25 employees and $2 million in annual revenue. Today, Ryla employs more than 3,500 and the company generated more than $100 million in revenue during its most recent fiscal year. *Inc.* magazine ranked Ryla as one of the fastest growing private companies in the nation. In addition, it is recognized nationally as one of the best places to work (Broughton 2010).

Health funders that are planning investment strategies to stimulate jobs and income have a unique opportunity. The health care sector represents more than $2.5 trillion of annual revenue and 17.6 percent of gross domestic product (The Henry J. Kaiser Family Foundation 2009b). The sector also boasts some of the fastest growing job categories in the domestic economy (Table 22), and many of the jobs are accessible to people of limited formal education. Health funders can invest in ways that both stimulate local health-related job growth, and support a range of education and training opportunities that prepare area residents for health careers.

➤ ***Environmental sustainability*** – There are many ways to incorporate environmental sustainability into models of healthy community. They include financing green construction with toxin-free materials and energy-efficient processes; projects that reduce local carbon footprints by colocating high-quality child care, education, and health care close to affordable housing and fresh-food sources; and businesses that restore or sustain a healthy environment. A larger upfront investment is often necessary to create build-

[25] See also SJF Ventures, "Salvage Direct: Investment Case Study," <http://www.sjfventures.com/wp-content/uploads/2009/06/Salvage-Direct-SJF-Investment-Case-Study-General-Public-Version.pdf>, 2010.

TABLE 21. PRIVATE EQUITY IN GROWTH BUSINESSES THAT CREATE JOBS, INCOME, AND BENEFITS

	PRI						MRI				
INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets

Investee	Private equity funds, such as the Pacific Community Ventures (PCV) Fund and SJF Ventures, that invest in companies that emphasize sustainable economies and provide good jobs and benefits for low- to moderate-income workers
Investors	The Mary Reynolds Babcock, Heron, MacArthur, and Rockefeller foundations
Co-investors and partners	• PCV Fund: California Public Employees' Retirement System and Wells Fargo • SJF Ventures: Calvert Investments, Citibank, Credit Suisse, Deutsche Bank, and MetLife, among others
Public sector	• CDFI Fund • Pennsylvania Department of Community and Economic Development
Structure and terms	• Limited-partner interests in the fund • Lock-up period of at least five to seven years • Double-digit or greater returns expected – often low double digits for PRIs. For these funds, foundation investors may or may not categorize their investments as PRIs.
Exit	A fund achieves exits when portfolio companies are sold or, less frequently, hold an initial public offering. Limited partners achieve exits from a fund after the lock-up period, as the fund achieves exits from portfolio companies. Private equity funds are generally illiquid (cannot be converted into cash); investors may not achieve exits for more than 10 years.
Observations	• Key investment objectives for the PCV Fund and SJF Ventures are to create jobs with good benefits, including jobs for low- to moderate-income workers. They structure investment exits so employees realize significant financial gains. The PCV Fund provides financial education for employees to help them create retirement or other savings. • The funds' investment strategies focus increasingly on green and sustainable product lines.
Innovation and impact	The PCV Fund and SJF Ventures operate affiliated nonprofit organizations that provide coaching and network building to small companies with high growth potential, helping them understand venture investment and preparing them to perhaps qualify for it.

Source: Author.

TABLE 22. HEALTH-RELATED OCCUPATIONS: FASTEST GROWING IN 2008 AND PROJECTED FOR 2018

Job Title and Code	Major Occupational Group	Employment (thousands)†		Change From 2008 to 2018		Median Annual Wage Quartile, 2008	Most Significant Type of Postsecondary Education or Training
		2008	2018	Number (thousands)†	Percent†		
Biomedical engineers (17-2031)	P*	16	28	12	72	VH*	Bachelor's degree
Home health aides (31-1011)	S*	922	1,383	461	50	VL*	Short-term, on-the-job training
Personal and home care aides (39-9021)	S	817	1,193	376	46	VL	Short-term, on-the-job training
Medical scientists (excluding epidemiologists) (19-1042)	P	109	154	44	40	VH	Doctorate
Physician assistants (29-1071)	P	75	104	29	39	VH	Master's degree
Skin care specialists (39-5094)	S	39	54	15	38	L*	Post-secondary vocational award
Athletic trainers (29-9091)	P	16	22	6	37	H*	Bachelor's degree
Physical therapist aides (31-2022)	S	46	63	17	36	L	Short-term, on-the-job training
Dental hygienists (29-2021)	P	74	237	63	36	VH	Associate degree
Dental assistants (31-9091)	S	295	401	106	36	L	Moderate-term, on-the-job training
Medical assistants (31-9092)	S	484	648	164	34	L	Moderate-term, on-the-job training
Physical therapist assistants (31-2021)	S	64	85	21	33	H	Associate degree
Occupational therapist aides (31-2012)	S	8	10	2	31	L	Short-term, on-the-job training
Pharmacy technicians (29-2052)	P	326	426	100	31	L	Moderate-term, on-the-job training
Physical therapists (29-1123)	P	186	242	56	30	VH	Master's degree
Occupational therapist assistants (31-2011)	S	27	35	8	30	H	Associate degree
Fitness trainers and aerobics instructors (39-9031)	S	261	338	77	29	L	Post-secondary vocational award

Source: Adapted from U.S. Bureau of Labor Statistics 2009.
*Abbreviations: (1) P = professional and related; S = service; (2) VH = very high; H = high; L = low; and VL = very low.
†Rounded to nearest thousand or whole percent.

ings, businesses, and agricultural operations that are sustainable and energy efficient. Environmental sustainability preserves natural resources and reduces health risks and operating expenses over the long term.

Attention to reducing environmental health risks is particularly important in rural areas, where such risks can be extremely severe yet easily overlooked due to pressing problems in larger, urban communities. For example, migrant farm workers are among the most disadvantaged and medically indigent, and have the poorest health of any group in the United States. In this group, the infant mortality rate is 125 percent higher than in the general population and the life expectancy is 49 years compared to the national average of 75 years (Center for Research on Occupational and Environmental Toxicology 2010). Migrant farm workers face high work-related risks, including exposure to toxic pesticides, physical strain, and potentially dangerous equipment. Weather- and equipment-related risks are also high in other rural occupations, such as fishing, logging, and farming/ranching. According to the U.S. Bureau of Labor Statistics (2010), these three professions ranked first, second, and fourth, respectively, among the 10 most dangerous jobs in the United States in 2009.

For decades, with PRI support from numerous foundations, CDFIs have been investing in the mitigation of environmental risks in rural communities. A number of these institutions organized as the Triple Bottom Line Collaborative to deliver capital that has triple-E impacts – on the economy, environment, and equity[26] – and work with borrowers to measure and quantify the mission outcomes of investments. However, triple-bottom-line investing has inherent tensions. As Enterprise Cascadia (2006) noted: "[P]overty trumps the environment: People struggling for solvency make decisions that solve the crisis at hand…An honest long-term commitment to a triple bottom line demands an institutional commitment to delivering economic opportunity that follows directly from environmental well-being."

Urban and rural CDFIs and sustainability-focused funds are making triple-bottom-line investments that deliver on the potential of equitable economic opportunity tied to environmental stewardship. Their numerous investments preserve natural resources while developing community real estate, facilities, affordable housing, and small businesses.

TRIPLE BOTTOM LINE COLLABORATIVE MEMBERS

- Coastal Enterprises Inc.
- Four Directions Development Corporation
- Montana Community Development Corporation
- Mountain Association for Community Economic Development
- Natural Capital Investment Fund
- Northern Initiatives
- Self-Help Credit Union
- Enterprise Cascadia
- Southern Mutual Help Association Inc.

- ***Coastal Enterprises.*** Founded in 1977, this nonprofit, rural CDFI and community development corporation based in Wiscasset, Maine, provides financing and support for regional small businesses that create jobs and support for natural resources industries, community facilities, and affordable housing. Financings include a local health center and medical office buildings in partnership with Speare Memorial Hospital in Plymouth, New Hampshire, and a hotel within walking distance from the hospital where patients' families can stay. Coastal Enterprises' primary market is Maine, but it has expanded financings to northern New England, upstate New York, and beyond. In addition to offering community lending services, it manages mission-driven venture capital funds, which have invested in 33 growing companies that target above-average returns on equity and create high-quality jobs and ownership opportunities for low-income people. Coastal Enterprises has received New Markets Tax Credits totaling $606 million and deployed nearly $400 million in 39 projects that directly support the nonprofit's

[26] Triple E impacts correspond to the more widely used triple-bottom-line criteria: social, environmental, and financial returns.

triple-bottom-line measures of economic progress, social equity, and environmental sustainability. Among the results:

- $1.1 billion of new capital investment in low-income areas (Coastal Enterprises attracted this investment by investing $399 million of its own resources in tax credit projects, for a leverage ratio of about $3 to every $1 invested);
- nearly 2.3 million acres of timberlands committed to sustainable forestry practices and retained as working forests for traditional mill supply, and additional economic development in recreational tourism and other industries;
- more than 9,530 direct jobs and tens of thousands of indirect jobs created or preserved in the fishing, paper and wood products, recreational tourism, as well as related manufacturing, transportation, and service industries; and
- 37 of 39 New Markets Tax Credits deals in geographic areas that have especially distressed communities (Spies 2010).

- ***Sea Change Investment Fund.*** This double-bottom-line venture capital fund, which focuses on the sustainable seafood industry, was created with a PRI by The David and Lucile Packard Foundation. Deeply committed to marine health, the foundation made a $10 million, low-interest PRI loan – more than double the amount of most of its PRIs at the time – to be matched by venture investors in the private sector. Sea Change began investing after it matched Packard's PRI with private equity. Its portfolio companies help expand the market for sustainable seafood by demonstrating that conservation practices are good business for the seafood industry and also generate financial returns for investors. Companies seeking Sea Change investment undergo a two-tier process. A committee of leaders in conservation and fishery science reviews proposals and decides whether or not they meet conservation criteria. If it approves, a second committee whose members have venture capital expertise reviews the request (The David and Lucile Packard Foundation 2006).
- ***Enterprise Green Communities.*** Sponsored by Enterprise Community Partners, one of the nation's

A SUSTAINABLE FISHERIES VENTURE FUND

Sea Change Investment Fund, created with a $10 million PRI loan from The David and Lucile Packard Foundation, invests in seafood companies that help expand the market for seafood that has been harvested in an environmentally sensitive manner. The companies accomplish this by demonstrating that sustainable seafood is good business for the industry as well as investors.

An integral part of the fund's investment strategy is to drive incremental environmental improvement in the sourcing and business practices of its portfolio companies, given the degradation of the oceans, which puts the seafood industry at risk. Causes of degradation include:

- damage to aquatic habitats by destructive fishing gear, pollution, the introduction of invasive species, or development;
- overfishing of targeted stocks or a lack of regulatory oversight and enforcement;
- wasteful use of marine resources, such as prolific by-catch and aquaculture's dependence on fishmeal and fish oil; and
- threats to natural species as a result of interaction with aquaculture.

Senior professionals in the conservation, seafood, finance, and investment communities advise Sea Change's portfolio companies, which, among other strategies, use technological solutions to address problems (The David and Lucile Packard Foundation 2006).

TABLE 23. DEBT AND TAX CREDITS IN A RURAL, TRIPLE-BOTTOM-LINE APPROACH

INVESTMENT FACTORS	Real Assets	Equity	Sub-Debt	Senior Debt	Deposits	Guarantee	Deposits	Fixed-Income: Bonds/Debt	Public Equity	Private Equity	Real Assets
	PRI						MRI				

INVESTMENT FACTORS	
Investee	Coastal Enterprises Inc. (CEI), a rural, nonprofit CDFI and community development corporation based in Wiscasset, Maine, that has $750 million in assets under management. It was founded in 1977 to provide financing and support for job-creating small businesses, natural resources industries, community facilities, affordable housing, health centers, and health-related businesses.
Investors	The Ford, MacArthur, Heron, Tides, and Casey foundations
Co-investors and partners	• Banks motivated by the Community Reinvestment Act • Speare Memorial Hospital in Plymouth, New Hampshire • Faith-based investors
Public sector	CDFI Fund, New Markets Tax Credit Program, U.S. Department of Agriculture, and Small Business Administration
Structure and terms	• Five- to 10-year, low-interest PRI debt for CEI's lending operations • Long-term, concessionary equity for venture funds • CEI also packages financings that include market-rate debt and often involve New Markets Tax Credits
Exit	• Repayment from CEI's successful loan performance, supported by loan loss reserves • For equity funds: repayment and gains from the sale of portfolio companies
Observations	Rural development challenges are different from those in urban development. They include a decentralized population, outmigration, depletion of natural resources, and limited public transportation. Historically, socioeconomic class has been a bigger cause than ethnicity of disparities in some rural areas. Minority and immigrant populations are increasing in rural communities, which need investment strategies that promote equitable access to opportunities.

Innovation and impact	• CEI has financed a local federally qualified health center and medical office building in partnership with Speare Memorial Hospital and others. It is also financing a hotel, within walking distance from the hospital, that patients' families can use.
	• CEI has led triple-bottom-line debt and equity investments, the vast majority of which are in distressed communities, including:
	  • $1.1 billion of new private capital investment in low-income areas, which leveraged CEI's $398.7 million in New Markets Tax Credits by a ratio of about three to one.
	  • Nearly 2.3 million acres of timberlands committed to sustainable forestry practices and retained as working forests for traditional mill supply purposes. In addition, economic development in recreational tourism and other industries.
	  • More than 9,530 direct jobs and tens of thousands of indirect jobs created or preserved in the fishing, paper and wood products, recreational tourism, and related manufacturing, transportation, and service industries.

Source: Author.

oldest CDFIs, Enterprise Green Communities fosters the construction of green buildings throughout the United States. It encourages affordable housing designs and materials that safeguard residents' health, locations with easy access to services and public transportation, the use of environmentally sustainable materials, reduction of negative environmental impacts, and better energy efficiency. Enterprise Green Communities, created in 2004 after consultation with some of the nation's leading environmental, public health, and green-building experts, offers grants, loans, tax-credit equity, training, and technical assistance to developers and builders. Since its inception, the initiative has invested $700 million to build and preserve nearly 16,000 affordable green homes, and has advocated a national commitment to healthier, affordable, greener homes for all (Enterprise Community Partners 2010).

- ***Equilibrium Capital Group.*** This investment management firm is building a portfolio of companies that invest in sustainability sectors – green buildings, efficient resource use, energy, water, land, carbon, and agriculture. The companies include Gerding-Edlen, a leading green developer of office and multifamily properties in targeted, high-growth urban markets, and EnergyRM, which creates fixed-income instruments for the purpose of making commercial buildings energy efficient.

In addition to impact investments that promote environmental sustainability, health funders and other social investors use shareholder activism to influence corporate policies on this and other matters affecting the communities where corporations operate. Shareholder activism engages the endowment, or "other 95 percent" of assets, to drive mission (Lindblom and Shaffer Campos 2010). It often targets large, publicly traded corporations whose business can exact a high social and environmental cost on society and also jeopardize long-term shareholder value.

The Nathan Cummings Foundation prepared shareholder resolutions regarding reporting by Smithfield Farms on the sustainability of its farms. This gave the foundation access to Smithfield's vice president for environmental and corporate affairs and to the chief legal officer; improved the company's sustainability reporting; and ultimately led to a 29.3 percent shareholder vote calling for sustainability reporting on contract, as well as company-owned, farms.[27] Smithfield delivered a facility-level report that provided the first complete industry picture of the "farm to fork" impacts of pork production and processing. Citing a National Research Council Report,[28] The Nathan Cummings Foundation noted that its shareholder resolution "caused Smithfield to critically examine its own reporting and how its

AS YOU SOW: DRIVING CHANGE THROUGH SHAREHOLDER ACTIVISM

The Corporate Social Responsibility Program at As You Sow, a public charity founded in 1992, uses shareholder advocacy and the financial markets to catalyze positive change within publicly held companies.

As You Sow has led or actively participated in more than 50 shareholder dialogues or resolutions and has conducted more than 25 shareholder solicitation campaigns to move companies toward better environmental sustainability, social equity, and health and safety. Among other efforts, it has promoted safer toy production in China and R ratings for movies that depict smoking. It also has urged companies not to put nanotechnologies in food and food products until the technologies have proved to be safe in each context in which they will be used.

For the 2010 proxy season, As You Sow reported that pension funds, unions, socially responsible investors, faith-based investors, and foundations filed 11 proposals asking companies to report on toxics or product safety. Four of the proposals focused on tobacco; three on mercury in dental fillings; and one each on aircraft maintenance safety, antibiotics in animal feed, bisphenol A in food packaging, and child obesity.

Regarding obesity, The Sisters of St. Francis of Philadelphia and Sisters of Charity of the Blessed Virgin Mary have asked McDonald's to assess public concerns about a possible link between fast food and childhood obesity, diet-related diseases, and other impacts on children's health (Passoff 2010).

supply chain is reviewed.... [T]he expectation by all parties is that increased transparency will support continuous improvement and sustainable environmental outcomes in Smithfield Foods' operations" (Lindblom and Shaffer Campos 2010).

The foundation's shareholder activism prompted it to create a staff position bridging the divide between programmatic interests and the investment portfolio. This staff person is responsible for researching and implementing proxy votes, shareholder resolutions, and investor collaboration on shareholder actions. Many foundations rely on the shareholder activism research and/or execution services of specialist organizations, such as As You Sow, the RiskMetrics Group (now a unit of MSCI), and the Interfaith Center on Corporate Responsibility.

➤ ***Community and equity*** – American communities are facing a rash of challenges – a heavy toll on governments, organizations, and households as a result of the economic crisis; the dispersion of traditional families and workplaces; declining health and substandard education options for many children; degradation of the natural resources on which many communities depend; political strife; and fear of violence. Many have likened the economic crisis to a natural disaster that has radically destabilized low- to moderate-income families, compounding their already serious health risks.

The sheer intensity of these challenges is renewing a focus on what communities need to thrive and, in particular, to foster the well-being of children. A component of philanthropy's response is impact investments that range from housing rescue efforts to bold strategies for building community. The investments profiled below seek to strengthen communities through:

TWO RELATED CRISES: HOME FORECLOSURES AND HEALTH

In a study by the University of Pennsylvania School of Medicine, 60 percent of 250 Philadelphia homeowners in foreclosure reported they had skipped or delayed meals because they could not afford food. They were also much more likely than a sample of residents in the general public to have not filled a prescription in the previous year because of the expense, and to lack health insurance. Nine percent of respondents indicated that a medical condition in their family was the primary cause of foreclosure, and more than a quarter said they had significant unpaid medical bills.

"The foreclosure crisis is also a health crisis," wrote Craig E. Pollack, M.D., the study's lead author.

Financial hardships created by foreclosure may lead homeowners to cut back on spending for preventive health care visits, healthy food, medicine to treat chronic conditions, and other needs they consider to be "discretionary," or to increase harmful behaviors. In the University of Pennsylvania study, 65 percent of smokers reported they were smoking more since their foreclosure notice arrived. In addition, according to the authors, the rate of depressive symptoms was "exceptionally high."

Pollack and co-author Julia Lynch suggested that "health care workers and mortgage counseling agencies coordinate their efforts to help people at risk of foreclosure access both medical and housing help." They said doctors should ask patients about their housing situation and steer them toward mortgage relief resources. Meanwhile, mortgage counselors can provide information about how to access health care in the safety net; enroll in public insurance programs, such as Medicaid or the State Children's Health Insurance Program; or, for pregnant and nursing mothers and their children, apply for nutritional assistance (Pollack et al. 2010).

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[27] Although this was less than a majority, shareholder support for resolutions often grows over time, and shareholder support of well less than 20 percent can influence corporate policy.

[28] Vollmer, Derek, National Research Council, *Enhancing the Effectiveness of Sustainability Partnerships: Summary of a Workshop*, (Washington, DC: 2009).

- help for families in the grip of foreclosure,
- shared equity and stability for the low- to moderate-income residents in mobile homes nationwide,
- state-of-the-art community centers that bring together ethnically and economically diverse residents for health-promoting and community-building activities,
- real estate holdings that establish communities of interest among social sector organizations, and
- Web platforms that establish communities of interest among diverse individuals across geographic and other boundaries.

As these efforts proceed, federal agencies are collaborating more on holistic approaches to community development. Examples include the new Partnership for Sustainable Communities, which addresses the high household costs of housing and transportation; Choice and Promise Neighborhoods, which feature high-quality education; and the Healthy Food Financing Initiative. Funders are supporting their communities in planning and applying for competitive awards from these federal programs, and many are likely to finance the execution of such efforts through impact investments.

- ***Response to the foreclosure crisis.*** In low- to moderate-income communities, millions of housing units are in, or face the risk of, foreclosure. The daunting consequences include owners and renters forced out of their homes and neighborhoods; children leaving school; and abandoned housing units quickly being vandalized and stripped of their value, which attracts other crime and bleeds the value of surrounding homes. To manage the higher risk, some lenders in these communities face steep recapitalization requirements. The loss of stable housing and financial security severely compounds the health risks that vulnerable populations already bear (Pollack et al. 2010).

  In Chicago alone, "The scale of the foreclosure crisis threatens to disrupt hard-won gains in many…lowest-income neighborhoods," said Jonathon Fanton, former president of The John D. and Catherine T. MacArthur Foundation (2008), reflecting a view held by many in the community development field. MacArthur responded early to the foreclosure crisis: it awarded grants to, and committed PRIs in, Chicago neighborhoods – a combined total of $68 million through 2008, the largest initial effort by a private foundation in the United States. The foundation expected to leverage more than $500 million in capital to assist 10,000 households, including counseling for 6,000 borrowers and prevention of 2,700 foreclosures by 2010. Its prevention-focused grants supported outreach and counseling for homeowners, legal assistance for victims of fraud and people with valid claims, and programs for renters facing eviction that enabled them to keep their homes or gain more time to find alternative rental housing (The John D. and Catherine T. MacArthur Foundation 2008).

  Significantly, all of the foundation's PRIs were in CDFIs and similar intermediaries. Although these institutions were not immune to the effects of so-called toxic assets in the predatory subprime lending market, they did not originate such mortgages. Contrary to some allegations in the press, mortgages by CDFIs and banks complying with the Community Reinvestment Act – typically for 30 years at a fixed interest rate – were generally underwritten with careful attention to and documentation of the borrower's repayment capacity. Most of the mortgages performed better than predatory, subprime loans (Kroszner 2009). However, as many of the low- to moderate-income borrowers lost their jobs, and as housing lost value due to foreclosures on surrounding properties, some of these loans also became troubled.

  MacArthur's PRIs supported mortgage refinancing products that help victims of the housing crisis keep their homes, including:

  - a $15 million, low-interest deposit PRI at a CDFI bank as credit enhancement for the bank's $100 million Rescue Loan and Prevention Program;
  - a $9 million PRI for the $150 million mortgage program operated by Neighborhood Housing Services of Chicago, in partnership with a number of local banks; and

- up to $36 million in additional PRIs and $750,000 in grants for a mortgage program at Self-Help Ventures of North Carolina that offers a rent-to-own option; The National Community Stabilization Trust, a collaboration of several of the nation's largest CDFIs; and other efforts that could strengthen Chicago neighborhoods by speeding the purchase, repair, and disposition of foreclosed properties (The John D. and Catherine T. MacArthur Foundation 2008).

- ***Community equity in manufactured housing cooperatives.*** The New Hampshire Charitable Trust, through early grants and, later, PRIs to the Community Loan Fund (formerly the New Hampshire Community Loan Fund and one of the nation's oldest CDFIs), has played a catalytic role in developing new forms of financing that enable residents of mobile home parks to cooperatively purchase the land on which their units sit.[29] Absent the ability to own their land and housing, mobile home residents are subject to destabilizing eviction when land values appreciate and owners cash in. As of August 2010, New Hampshire co-ops owned 20 percent of all mobile home parks in the state, including 96 communities that were acquired by the roughly 5,300 homeowners who live in them (Bradley 2010).

  In 2008 three national nonprofits – the Corporation for Enterprise Development, NCB Capital Impact, and NeighborWorks America – and the Community Loan Fund created Resident Owned Communities (ROC) USA so resident ownership of mobile home parks and its benefits would be possible in more states. Grants from these entities and the Ford Foundation served as equity for the launch. Several other institutions also provided grants, the Calvert Social Investment Foundation and Deutsche Bank made PRIs, and other PRI commitments are pending. ROC USA uses this capital to originate loans to resident co-ops. Then it sells the loans to other CDFIs, state housing finance agencies, and lenders, and recycles the cash to make new loans. Today, 11 statewide and regional nonprofits have joined this scaling initiative, each certified by and working in the ROC USA Network to provide on-the-ground technical assistance to homeowner groups. Since the launch, network technical assistance providers have helped 18 communities preserve 1,184 homes in nine states. The latest is a 32-home community in Kalispell, Montana, the state's first resident-owned community (Bradley 2010). This initiative builds resident equity and financial security as property values increase when the land tenure of the home is guaranteed. Residents gain control over their destiny. They also avoid housing destabilization and any related adverse health effects.

- ***Bringing the community together for health.*** Since 2002 the Mary Black Foundation in Spartanburg, South Carolina, has focused its grantmaking on active living and early childhood development and explored ways to support these issues with more than grants. The foundation began seeking ways to use investment assets to drive social change, particularly in its active living program. Through this program, Mary Black aims to build physical activity back into daily lives while strengthening bonds between Spartanburg's neighborhoods.

  The foundation explored the possibility of joint real estate ventures with the City of Spartanburg that could advance these aims. There was not an exact fit at first, but two years later the mayor sought loans from Mary Black to rehabilitate several city park facilities. Mary Black agreed to extend two loans for park facility upgrades as part of Spartanburg's park master plan.

  The first loan paid for reconstruction of the C.C. Woodson Recreation Center, located in a low- to moderate-income neighborhood, as a state-of-the-art center attractive to nearby residents and those in the greater community. The center's high-quality design, education room with computers and places to do homework, gym, pool, athletic field, senior space, and kitchen make a bold statement: "Everybody is welcome here – and this is as good as any place in town." With appealing streetscaping, it was designed as a bridge to other neighborhoods and as catalyst for new housing nearby.

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[29] Foundations have made PRIs in a range of real estate structures designed to promote long-term homeownership affordability in urban and rural settings. These structures include community land trusts and limited equity cooperatives.

Mary Black's partners in the $6.1 million project are the City of Spartanburg, the Spartanburg Housing Authority, SunTrust Bank, and BMW. The project used New Markets Tax Credits financing, which provides a 39 percent tax credit over seven years to for-profit entities, such as SunTrust Bank and BMW, that invest in qualifying low-income communities. The foundation extended a $1.2 million, interest-only loan to Spartanburg for seven years at 3.45 percent. The credit risk depends on the city's budgeting process; Spartanburg cannot commit repayments in advance, and it will want to refinance the loan at the end of seven years. Mary Black categorized the loan as a PRI while treating it like an investment – in other words, grantmaking was not reduced to fund the loan. The foundation has committed a similarly structured loan for a second park center (Belcher 2010).

- ***Colocation of common interests.*** Some health funders are using real estate holdings to create communities where foundations or nonprofit organizations colocate to reinforce and learn from each other. Two examples are the Center for Philanthropy, sponsored by the Northwest Health Foundation, in Portland, Oregon, and the Nonprofit Innovation Center, sponsored by the Sierra Health Foundation, in Sacramento, California. They provide a blend of shared amenities, such as a conference room, kitchen, and space for bike storage and exercise; phone and Internet service; and opportunities for diverse organizations to collaborate.

  At the Nonprofit Innovation Center, shared administrative and other services enable nonprofits to do better work in an environment where they can "dream big, think large, and collaborate with others" (Sierra Health Foundation 2007a). A committee of center tenants created a vision statement of "healthy individuals, families and community" and a mission statement reflecting shared commitment "to ensure that information, resources and opportunities necessary to achieve overall health, wellness and quality of life are made available to members of all Northern California communities, particularly those adversely affected by economic, health and social justice disparities" (Sierra Health Foundation 2007b).

- ***On-line communities of interest.*** The Web is a catalyst for new virtual communities, some with venture capital investments from foundations and other philanthropic investors. As mentioned earlier, Omidyar Network makes impact investments through a 501(c)(3) independent foundation and a limited liability company. Through the latter, Omidyar Network invested in PatientsLikeMe and InnoCentive, on-line companies whose value proposition is collaboration and information sharing.

  PatientsLikeMe (2008a) describes itself as "a treatment, symptom and outcome sharing community" where patients who have life-changing medical conditions can exchange personal stories and health information, which put their disease in context and answers questions they may still have. Although the site promotes information exchange among patients rather than dialogue with health care professionals, the venture could be a financially sustainable part of the solution for increasing health literacy – an activity that typically would require grant funding or public subsidy. It earns revenue by aggregating and de-identifying the information patients share about their disease experience, then selling the information to drug, device, equipment, insurance, and medical services companies for market research purposes. According to PatientsLikeMe (2008b): "By selling this data and engaging our partners in conversations about patient needs, we're helping them better understand the real world medical value of their products so they can improve them. We are also helping companies accelerate the development of new solutions for patients. Our end goal is improved patient care and quality of life."

  Through its "open innovation marketplace," InnoCentive promotes an atmosphere of collaboration among more than 200,000 of "the world's brightest minds" in the business, academic, public, and nonprofit spheres to solve vexing "challenges," which organizations post on the InnoCentive Web site. Registered "solvers," whose identities are securely confidential, receive significant financial awards for the best solutions (InnoCentive 2009 and 2010).

CONCLUSION AND NEXT STEPS

Despite a global economic downturn and loss of confidence in financial markets, impact investing and the broader social investment industry continue to attract growing interest. Foundations that make impact investments were not immune to the downturn, but many found that these investments delivered critical social impact and continued to hold value or generate positive returns during the market decline. The financial and social performance of impact investing over time underscores an emerging view that fiduciary responsibility may call for investment strategies that incorporate environmental and social criteria, as well as consideration of a foundation's overall effectiveness in carrying out its mission.

> *"The fundamental idea of mission or impact investing is to align the way a business generates profits with the way it generates positive social impact. There is lots of conversation about the same old challenges…The primary problem is creating new platforms to address the challenges, and what lens [we can] bring as investors that will enable investment opportunities that others may not see or have the risk tolerance to pursue."*
>
> *– Stephen DeBerry, Chief Investment Officer, Mitchell Kapor Foundation and Kapor Trust; and Founder, Bronze Investments*

Health funders increasingly use impact investments to drive a range of impacts and align endowment holdings with their mission. They are investing in these opportunities across the broad program areas of health care, health coverage, and healthy community, and across asset classes and expected levels of financial return.

Investments in health care enable the sustainability, scaling, and replication of effective models, such as federally qualified health centers, cooperative home health care, and employer-based health worker training. They also spur product and technology innovations that can improve the quality, accessibility, and affordability of health care for everyone.

Investments in health coverage are creating models for quality, affordable insurance while promoting innovation in worker benefits and financial products. These, in turn, strengthen family economic security, an essential foundation for choosing healthy behaviors and being able to shoulder health care expenses. Collectively, such investments cultivate models that can complement health insurance reform in delivering

WORDS OF ADVICE

- **Choose a level of engagement.** Are you looking to be a passive or active investor? Or a combination of both?
- **Look for and seize moments of opportunity.** Invest in projects that truly propel your mission.
- **Reward performance and accountability.** These are investments, not grants. Cultivate entrepreneurship, which requires performance and accountability.
- **Think outside the box.** Explore new ways of using your investing power – for example, by linking up with other similarly minded funders.
- **Get started.**

– Robert Hohler, Executive Director, The Melville Charitable Trust
PRI Makers Network Conference, 2008

high-quality health care – including preventive care – to vulnerable and broader populations.

Finally, investments in healthy community seek to actively direct the social determinants of health in ways that promote healthy human development over the life cycle, supporting healthy choices and behaviors, building health equity, and reducing health care costs.

Impact investments in health care, health coverage, and healthy community leverage funders' grantmaking and other activities. They engage the crosscurrents of social sector and health policy change to scale a range of activities and organizations that can help communities meet the national Healthy People 2020 goals. Increasingly, investment strategies include social and environmental, as well as financial, criteria that move foundations toward fulfillment of their mission.

For impact investing strategies and execution to succeed, financial and program staff at foundations must work together. There are significant opportunities for them to collaborate and co-invest with external funders and other investors who have similar programmatic, sectoral, and geographic interests. Potential partners cover a broad range: foundations focused on health, community development, education, the environment, or other areas; community and other foundations working in the same places; and faith-based investors, health systems, banks, insurance companies, pension funds, and government agencies that share health funders' interest in building healthy communities and often have extensive impact investing experience.

Health funders interested in equity investments that promote innovations in health products and technology generally partner with a slightly different set of co-investors, including, but not limited to, health systems, pension funds, and venture investors. As large-scale purchasers of health care products and services, many of these entities bring valuable insight and experience to the equity investing process.

Realizing the promise of impact investing opportunities at a scale that addresses the needs of underserved communities and people nationwide will require significantly more capital. Strategies to mobilize this capital can leverage the particular strengths of philanthropy and the public and private sectors.

- ***Philanthropy*** – Its early-stage, subordinated, and patient investments spur innovation, demonstrate the viability of impact investing, and attract co-investors. Complementary grants from philanthropic sources prepare grantees to effectively deploy impact investments. Such grants also foster the development of tools to better track financial and social performance. Finally, philanthropy's active participation in monitoring impact investments can help ensure that these investments achieve their social, environmental, and financial objectives.
- ***Government*** – Its grant, guarantee, tax credit, and insurance programs mitigate risk and provide incentives for private sector investment.
- ***Private sector*** – Its conventional investors provide the largest amounts of capital, as well as insight on how to create efficient structures and processes.

There are significant opportunities for health funders with a national or regional focus to become lead investors in the replication of proven models – federally qualified health centers, supportive housing, high-quality child care and education, fresh food markets, community-oriented long-term care, and others. A critical mass of investment in key national or regional projects can attract local co-investment in local projects. Meanwhile, local funders that are moving forward with community- or sector-focused investments should seek co-investment from funders at the national and regional levels to help all health funders accelerate the impact investing learning curve, reduce transaction costs and risks, and amplify results.

The still-evolving field of impact investing receives strong support from trade associations and peer networks, which are sources for learning, referrals, co-investment, research, and collaboration. Among these organizations are the Global Impact Investing Network, More for Mission, and PRI Makers Network (see Appendix C). Their activities include efforts to develop more comprehensive and automated systems of financial and performance tracking. Through grants, health funders can augment those efforts by funding research and development on methods that:

- assess how impact investing can stretch public health dollars;
- quantify and monetize the cost savings generated by prevention, which can help make the case for financing;
- make more effective use of County Health Rankings,[30] health impact assessment,[31] and other health status measurements based on demographic markers – census tract, income level, gender, ethnicity, and age – to gauge the social consequences of impact investments over time; and
- match health researchers, including health impact assessment practitioners, with health-focused impact investing projects to speed the definition and application of impact measures.

In the months ahead, GIH will augment the impact investing resources cited in this guide. GIH looks forward to continuing to support health funders as they use impact investing to advance their missions.

30 See http://www.countyhealthrankings.org.

31 See http://www.cdc.gov/healthyplaces/hia.htm.

APPENDIX A: GLOSSARY

Aligned investing. Using screening, shareholder activism, and proactive investing to engage all of a foundation's financial resources in achieving its mission goals.

Alternative investing/alternative asset class. In the early years of social investing, "alternative investing" referred to proactive investing and particularly community investing. A similar term – "alternatives" – is now used in the conventional financial services arena to refer to asset classes other than the U.S. stock market, such as international stocks, hedge funds, private equity, and real estate.

Asset allocation. A conventional investment discipline that aims to balance risk and return by apportioning a portfolio's assets according to an investor's goals, risk tolerance, and investment horizon. Different asset classes, such as equities, fixed income, and cash and equivalents, entail different levels of risk and return, and will perform differently over time (Investopedia 2010a).

Asset class. A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to similar laws and regulations. The three main asset classes are equities (stocks), fixed income (bonds), and cash and equivalents (deposits or money market instruments). The classes reflect different risk and return characteristics and perform differently in any given market environment (Investopedia 2010b). In practice, the range of asset classes is more diverse; foundations have made impact investments in 18 asset classes, including various types of guarantees, deposits, debt, fixed-income securities, public and private equity, commodities, and real estate (Kramer and Cooch 2007).

Capital call. Private equity fund investors make a capital commitment that the fund manager draws down for investing over some initial period of the fund's life, usually a period of years or until a portion of the fund's capital has been invested, whichever comes first. When the fund manager notifies these investors, they must meet capital calls, or "draw downs," within an agreed-upon time, generally days.

Carry (or carried interest). In private equity fund investments, the carry is fund profits shared with the fund investors. The standard formula of "2 and 20" refers to an annual management fee of 2 percent and shared profits of 20 percent paid to a fund manager. The balance of 80 percent of profits is paid to the fund investors. The carry varies somewhat by fund type and manager. The management fee generally declines in the fund's out years, after the fund manager has placed investments in companies.

Certificate of Deposit Account Registry Service (CDARS). A proprietary service through which investors can extend insurance from the Federal Deposit Insurance Corporation to certificates of deposit at qualifying CDFI banks and other banks and savings and loans. Insurance coverage is up to $50 million per depositor.

Community development corporation. A nonprofit entity, typically in a low- to moderate-income community, that focuses on revitalizing housing and commercial opportunities there. It also provides other supportive services.

Community development financial institution (CDFI). A nongovernmental financing entity whose primary mission is to foster development in distressed communities or underserved targeted populations. The CDFI Fund, an agency in the U.S. Department of the Treasury, certifies CDFIs and provides financial support to them on a competitive basis.[32]

Community investing. Investments in communities underserved by traditional financial services. Such investments provide access to credit, equity capital, and basic banking products that otherwise would be unavailable. Globally, community investing enables local organizations to provide financial services to low-income individuals and households; capital to small businesses; and capital for vital community services,

[32] Lists of certified CDFIs by name, state, and type are available at http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9.

such as child care, affordable housing, and health care.[33]

Community Reinvestment Act of 1977. A federal law that encourages banks to meet the credit and financial services needs of the communities in which they operate, including low- to moderate-income neighborhoods.[34]

Corporate social responsibility. A concept that encompasses what companies do with their profits and how they earn them. It goes beyond philanthropy and regulatory compliance to address management of economic, social, and environmental impacts, and companies' relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.[35]

Credit enhancement. Financial arrangements, such as loan or bond guarantees, subordinated loans, or insurance, that reduce the risk associated with financing for a project or organization. Credit enhancement is reassuring for investors because it places one or more layers of protection between their investment and potential credit losses. By reducing the real or perceived risk, it improves borrowers' access to financing and lowers interest rates.

Double-bottom-line (DBL)/triple-bottom-line (TBL) investing. Investing that incorporates social and financial criteria (double bottom line) or social, financial, and environmental criteria (triple bottom line) into investment decisionmaking.

Economically targeted investing. Typically a U.S. pension investment that, in addition to garnering a market-rate financial return, seeks to enhance regional and/or national economies. Such investments aim to spur development, savings, and the creation of jobs and businesses; increase or improve affordable housing; and improve infrastructure (California Public Employees' Retirement System 2009).

Emerging domestic markets. People, places, or enterprises with growth potential that are constrained by systematic undervaluation due to imperfect market information and access to resources (Yago et al. 2007). Such markets include urban and rural communities, and companies serving low- to moderate-income populations (State Street Global Advisors 2010).

Environmental, social, and corporate governance investing (ESG). An investing approach that takes into account the impacts of environmental and social considerations on financial performance. It is based on the idea that environmental, social, and corporate governance issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes, and time.[36]

Equity equivalent investment. Deeply subordinated debt that functions like equity capital in a nonprofit or cooperative organization. In its purest form, an equity equivalent investment is subordinate to all other debt and has a rolling term. See also "subordinate debt."

Expenditure responsibility. Generally applies to grants and program-related investments made by a private foundation to organizations that the IRS does not classify as 501(c)(3) public charities. The private foundation must ensure that such funds are spent for the intended charitable purposes and not for private gain or political activities. It and the recipient organization agree in writing to certain stipulations regarding the investment. (For details about these stipulations, see "Expenditure Responsibility" below the table in Appendix E.)

Externality. A positive or negative consequence of an economic activity, such as environmental pollution, that an unrelated third party experiences.

Forgivable loan. A loan that does not have to be repaid if the borrower meets predetermined conditions –

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[33] See Community Investing Center at http://www.communityinvest.org.

[34] See Federal Financial Institutions Council at http://www.ffiec.gov/CRA/default.htm.

[35] See Corporate Social Responsibility Initiative at http://www.hks.harvard.edu/m-rcbg/CSRI/init_define.html.

[36] See UNEP Finance Initiative at http://www.unepfi.org.

for example, a student loan wherein the borrower performs public service for a certain period of time after graduation.

Guarantee. A loan guarantee is a promise to repay a loan if the original borrower defaults.

Impact investing. For foundations, this type of investing advances their mission and recovers the investment principal or earns a financial return. It includes investments by any private or community foundation, in any asset class, and for market-rate or below-market-rate returns on a risk-adjusted basis. The term also refers to investments by a broad range of investors for the purpose of generating social or environmental, as well as financial, returns.

Individual development account. An incentivized savings account, matched by grant funding, that enables a low-income family to save, build assets, and enter the financial mainstream. Such accounts reward the monthly savings of working-poor families who want to purchase an asset (typically a first home), pay for postsecondary education, or start a small business. Many CDFIs offer individual development accounts and other asset-building financial services and credit.[37]

Initial public offering (IPO). The first sale of stock by a company to the public. Companies may undertake IPOs as one of several possible ways to raise more capital and provide an exit to early-stage investors.

Intermediary. A third party that facilitates a grant or investment relationship between two other parties. Some foundations use intermediaries to re-grant funds for designated purposes. Some use intermediaries and funds as wholesale investment vehicles: they place their investments with the intermediaries or funds, which, in turn, reinvest in projects or organizations.

Junior debt. See "subordinate debt."

Limited partner. A limited partner in a limited partnership or equity fund provides a portion of the equity capital, but does not have management responsibilities and is not responsible for losses beyond the amount the partner invested.

Loan loss reserve. A lender's cushion against possible loan losses. The lender builds up the reserve by regularly allocating funds to it as noncash charges against income. CDFIs and similar lenders may build up their reserves by obtaining grants or making special allocations for this purpose. Adequate reserves are necessary to protect investors from losing their investments and to preserve the lender's solvency.

Mezzanine. Refers to financing that combines debt and equity in a hybrid form, and to a stage of venture capital. As a stage of venture capital, mezzanine is the bridge financing a company takes on as it moves between the growth stage and an initial public offering (Investopedia 2010c).

Mission investing. Financial investments that seek to further a foundation's mission and recover the principal invested or earn financial returns (Kramer and Cooch 2007).[38]

Mission-related investing (MRI). Generally, an investment by any private or community foundation in any asset class that offers an expected market-rate financial return on a risk-adjusted basis, as well as a social and/or environmental return related to the organization's mission. Some foundations use the term interchangeably with "mission investing" or "impact investing," even though these include both market-rate and below-market-rate investments.

Monetize. To convert into money, or, figuratively, to assign a financial value that can be used for economic benefit. For example, future savings on energy efficiency can be monetized to support loans for the installation of energy-efficient equipment.

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[37] For more details, see "Individual Development Accounts" at http://cfed.org/programs/idas.

[38] For purposes of this guide, the definition of impact investing in the foundation context is based on the definition of mission investing provided by Kramer and Cooch 2007.

Program-related investing (PRI). A special category of impact investments defined for private foundations in the Tax Code of 1969 as investments for which the primary purpose is to accomplish one or more of the foundation's exempt purposes, no significant purpose is the production of income or appreciation of property, and no purpose is influencing legislation or taking part in political campaigns on behalf of candidates (Internal Revenue Service 2010a). Foundations of all types use this term to refer to investments in any asset class that offer an expected below-market-rate return on a risk-adjusted basis.[39]

Recoverable grant. A grant that the grantee must repay if certain performance benchmarks, such as revenue generation or refinancing, are met. Private or community foundations may use recoverable grants when organizational or market factors pose a higher risk and less certainty that the funds will be repaid – for example, if the grantee is launching an untested business or there is a currency risk. Charitability criteria, due diligence, and the need to define repayment terms are the same as for a PRI, but documentation is simpler than that for a loan or equity investment. Successful recoverable grants may be refinanced into other impact investments, thereby rewarding grantees' performance.

Screening. Avoiding holdings in companies whose practices are perceived as socially or environmentally destructive, and pursuing holdings in companies whose practices are perceived as socially or environmentally beneficial ("best in class"). The term generally applies to publicly traded companies.

Securitize. Creating a security that generates repayment of the principal and a return based on the cash flows of existing financial assets, such as a pool of loans or accounts receivable.

Senior debt. See "subordinate debt."

Shareholder activism. Engaging a company's management, as in the voting of proxies, to motivate socially and environmentally responsible corporate behavior. The term generally applies to publicly traded companies.

Side letter. A separate agreement setting out transaction terms that may differ from the standard terms. Program-related investors in an equity offering may need a side letter enabling them to exit an investment if use of the proceeds is not charitable.

Social investing. Any type of investing that incorporates social or environmental, as well as financial, criteria into investment decisionmaking. Impact investing by foundations is a subset of social investing, as are shareholder activism and screening.

Socially responsible investing. A term often used to refer to screening of publicly traded stock portfolios. The Social Investment Forum (2010) defines it more broadly as an investment discipline incorporating social and environmental factors into portfolio management through a range of strategies, such as screening, shareholder advocacy, community investing, and venture capital that generates both social and financial returns.

Social sector. A sector comprising organizations for which the primary mission is to create social rather than economic value for their owners or employees, or consumption value for their customers. Social sector organizations may be structured as nonprofits, for-profits, hybrids, or cooperatives.[40]

Subordinate ("junior") debt. Subordinate/subordinated debt entails higher risk than does senior debt. Subordinate lenders absorb any credit losses before the losses affect senior lenders, and thus constitute a "credit enhancement" that reduces senior lenders' risk in a financing.

Syndicate. A consortium of investors that come together for a particular investment or deal, which may be

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[39] For more information about PRIs, visit http://www.primakers.net.

[40] For more information about this sector, see Center for the Advancement of Social Entrepreneurship, Duke University Fuqua School of Business, "A Brief Guide to Understanding the Social Sector," <http://www.caseatduke.org/documents/abriefguidetounderstandingsocialsector.pdf>, February 2003.

called a syndicated deal. The three syndication phases are origination, operation (including investment monitoring), and liquidation or exit. In the venture capital arena, an investor syndicate may include a consortium of investors that invests in a new company from its beginning all the way to its merger with or acquisition by another company, or to an initial public offering.

Tranche. A portion of a larger financing pool that has certain risk and return characteristics, also sometimes referred to as a "layer" in a capital "stack" or "structured financing." Such a financing may comprise multiple tranches, each with a different level of risk or subordination to the most senior tranche. The so-called first loss tranche has the highest risk: it is subordinate to senior tranches in the pool, taking losses before them and thus serving as credit enhancement for the senior tranches.

Triple-bottom-line investing. See "double-bottom-line investing."

Unrelated business income tax (UBIT). A federal tax on an exempt organization's gross income (less directly linked expenses) from an unrelated trade or business. Like foundation investments in general, income from certain impact investments can trigger UBIT liability. Community and private foundations should review UBIT considerations with tax and legal counsel on a case-by-case-basis.

APPENDIX B: IMPACT INVESTING FINANCIAL PERFORMANCE

Numerous reports in the last decade have demonstrated that social investors need not sacrifice financial returns – and indeed may stabilize returns – by incorporating environmental, social, and governance criteria into investment decisionmaking (Social Investment Forum 2009). In part because impact investments are largely a privately held subset of social investments, public information about their financial performance has been limited. Available data, however, corroborate the general finding that prudent impact investors do not have to trade financial returns for social returns.

The most complete data relate to loans, which have made up the preponderance of foundation impact investments since 1968. According to a 2007 survey of 92 foundations that had used impact investing in the previous four decades, 75 percent of those that made loans experienced no defaults and three had cumulative default rates exceeding 30 percent. Excluding the three outliers, the overall repayment rate was 96 percent (Kramer and Cooch 2007). While loans in the survey were primarily below-market-rate and qualified as program-related investments (PRIs), the default rate consistently declined over the study period, suggesting that foundations developed effective ways to manage their loan portfolios, irrespective of loan pricing. During those four decades, many PRI borrowers also repaid higher interest loans to commercial banks and other investors.

Also during that period, foundations increasingly relied on community development financial institutions (CDFIs) and similar specialized intermediaries as partners for executing their impact investing strategies. CDFIs reported loss rates of less than 1 percent for each year between 2000 and 2008 (CDP Publication Committee 2008). While the economic downturn increased risk and loan loss rates for all lenders and investors, at the end of both 2008 and 2009, loan losses at CDFIs surveyed by the sector's largest trade association remained lower than those at banks insured by the Federal Deposit Insurance Corporation (Opportunity Finance Network 2010).

Foundations have achieved strong returns on their market-rate impact investments. A good example is the F.B. Heron Foundation. (For details, see "Impact Investing at the F.B. Heron Foundation," in this appendix.) The Vermont Community Foundation, which dedicates 5 percent of its pooled funds to investments across asset classes that focus on local community development, also seeks to meet performance benchmarks for all of its impact and conventional investments. As of December 31, 2009, it still ranked in the top 10 percent of community foundations in terms of investment returns for the previous three years, in the top 5 percent for the previous five years, and in the top 11 percent for 2009 (Rooney 2010).

The Consumer Health Foundation's fixed-income holdings at Pugh Capital Management, an African-American woman-managed firm, outperformed the Barclays Capital U.S. Aggregate Bond Index in the three years ended December 31, 2009. It had returns of 9.83 percent in 2009, compared with the 5.93 percent benchmark, and 7.52 percent returns over the three-year period, compared with the 6.04 percent benchmark. The foundation's PRI portfolio of loans to health centers at 1 percent interest also outperformed the stock market during the economic downturn (Wick 2010).

The KL Felicitas Foundation evaluates performance at the portfolio, asset class, and manager levels, placing primary emphasis on relative, risk-adjusted rates of return during a market cycle, typically three to five years. The foundation also evaluates its impact investments in aggregate and in self-defined subcategories – PRIs, mission-related investments (MRIs), and sustainability and social component investments, which together represented more than 50 percent of assets as of December 31, 2009. Felicitas evaluates each subcategory relative to an equally weighted average benchmark of asset class exposure, and each impact investment relative to a specific benchmark. For example, the total one-year portfolio returns for 2008 and 2009 were -17.2 percent and 11.2 percent, respectively. Felicitas measures total portfolio performance relative to the Consumer Price Index plus 5 percent (returns were 5.1 percent in 2008 and 7.8 percent in 2009) and relative to its peers based on the Median Endowment and Foundation Independent Consultants Cooperative Universe (returns were -25.8 percent in 2008 and 21.2 percent in 2009).

Also for 2008 and 2009, the MRIs subcategory of impact investments (an average 16 percent of all portfolio assets for those years) by Felicitas showed results of 5.95 percent and 3.5 percent, respectively. The MRI portfolio – a combination of exposures to cash, debt, equity, and real estate – is evaluated relative to a blended benchmark of 3-Month Treasury Bills, the Symbiotics Microfinance Index,[41] the MSCI Emerging Market Equity Index, and the National Council of Real Estate Investment Fiduciaries Property Index. For 2008, the MRI benchmark return was -4.65 percent. The MRI portfolio's 5.95 percent return represented an absolute positive performance relative to total portfolio performance, which was -17.2 percent, and to its exposure (-4.65 percent). For 2009, the MRI portfolio benchmark return was 5.93 percent and the total MRI portfolio return 3.5 percent. Although the portfolio underperformed its benchmark that year, it continued to deliver absolute positive performance and, on a cumulative basis, is performing in line with its benchmark. To evaluate the specific contribution and attribution of each investment in the MRI portfolio, Felicitas measures an investment's performance relative to a particular benchmark. For example, it evaluates time deposits at each mission-driven depository relative to the 3-Month Treasury Bill rate (Kleissner 2010; Pomares 2010).

More information about the financial performance of social investors is available at http://www.sristudies.org.

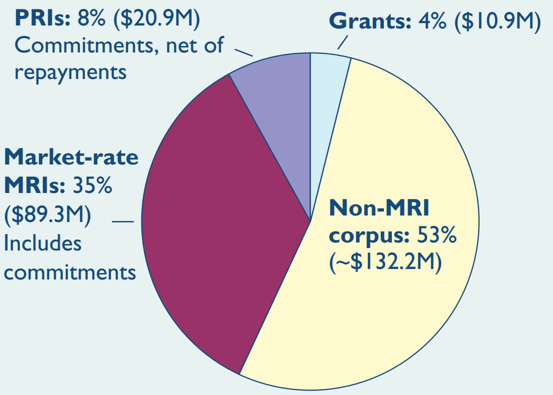
IMPACT INVESTING AT THE F.B. HERON FOUNDATION[42]

At the F.B. Heron Foundation, the goal of mission-related investing – the term Heron uses for impact investing – is to increase opportunities for low-income people and communities to create and preserve wealth. In particular, the foundation seeks opportunities that leverage its resources with those of other investors.

Heron's 43 percent of assets for MRIs – 47 percent including grants – places it in the top tier of private foundations and other institutional investors (Figure B1). Most of these investments are market-rate. The foundation's average annual compound return for the 15 years ended December 31, 2009, was 9.81 percent compared with 8.74 percent for its median peer among Cambridge Associates clients, or in the top third of foundations of similar size. In 2006 *Foundation & Endowment Money Management Newsletter*, an *Institutional Investor* publication, named Heron the "Small Nonprofit of the Year" for its pioneering work in MRI.

FIGURE B1. ASSET DEPLOYMENT

Commitments and outstanding amounts:



Total assets = $242.4M

NOTE: Dollar figures are rounded.

Since the foundation began such investing in 1998, its MRIs – a term that Heron applies to investments across the full range of potential returns – have grown to $110 million (Table B1). They cover a variety of asset classes: deposits, fixed-income securities, senior and subordinated loans, public and private preferred stock and common stock, and private equity. Heron targets below-market and market rates of return. It

[41] In 2009 Felicitas replaced this with the Barclays Global Emerging Market Debt Index, which served as a proxy for its microfinance debt investments.

[42] The F.B. Heron Foundation provided all information for this profile. Data are as of December 31, 2009.

TABLE B1. MRI ASSET ALLOCATIONS

Asset	PRIs (millions)	Market-Rate MRIs (millions)	Subtotal (millions)
Cash deposits, certificates of deposit	$1.00	$5.75	$6.75
Fixed-income securities	–	$40.00	$40.00
Senior loans	$11.92	–	$11.92
Subordinated loans	$2.71	–	$2.71
Public equity	–	$30.00	$30.00
Private equity	$5.27	$13.59	$18.86
Total	$20.90	$89.34	$110.24

Note: Dollar figures are rounded.

classifies below-market-rate MRIs as PRIs.

The foundation seeks to meet or exceed established performance benchmarks for each asset class in its impact investment portfolio. For example, the benchmark for deposits is the Bank of America Merrill Lynch 3-Month Treasury Bill Index. The benchmark for fixed-income securities is the Barclays Capital U.S. Aggregate Bond Index (formerly the Lehman Brothers Aggregate). The benchmark for public equity is the S&P 500 Index. The benchmark for private equity is the Russell 3000 plus 3 percent. For PRIs (below-market-rate investments that can be in any asset class), the benchmark is the long-term inflation rate plus 1 percent.

Heron's MRI staff consists of 1.75 full-time equivalents. All program officers are trained to underwrite PRIs

TABLE B2. PRI PORTFOLIO

Factors	Performance
Number of PRIs approved	36
PRI commitments outstanding	$20.89 million
Reserve for PRI losses	$600,000
Number of new PRIs approved, 2009	4
Dollar value of new PRIs approved, 2009	$4.75 million
Dollar value of PRIs repaid in 2009	$2.10 million
Dollar value of PRIs to be repaid in 2010	$3.30 million
Interest rate (weighted average)	3.61%
Maturity (weighted average)	6.2 years
Cumulative interest received	$3.97 million
PRIs delinquent >90 days	1.6%
Write-offs to date	0

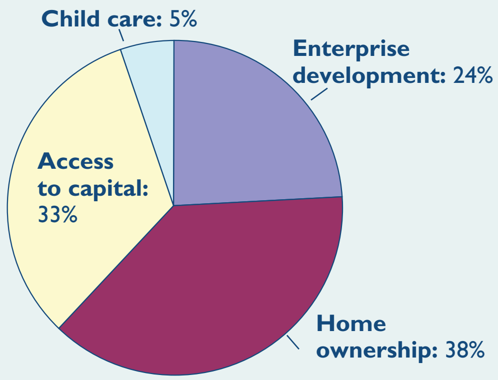
Note: Dollar figures are rounded.

as well as grants. When necessary, Heron engages third-party due diligence specialists to supplement staff analysis. In 2009 the foundation's direct investment expenses – asset management, custody, and consultant fees – for its traditional investments and MRIs were about 35 basis points. It tracks social impact metrics for all MRIs.

In 2009 there were 36 PRI loans and investments outstanding to 35 separate borrowers or investees (Table B2 and Figure B2). Two PRIs totaling $343,000, or 1.6 percent of commitments, were delinquent as of December 31, 2009. Five other PRIs totaling $3 million, or 14.6 percent of commitments, were performing but on the "watch list."

The interest rates on PRI loans ranged from 1 to 6 percent, depending on deal structure and use of proceeds. Repayment terms ranged from one to 12 years. Of 36 outstanding PRIs in 2009, 20 were senior loans (three of them secured or guaranteed), six were subordinated loans, seven were limited partnership interests, two were preferred stock, and one was a below-market-rate insured deposit.

FIGURE B2. PROGRAM ALIGNMENT OF PRIs



Twenty-nine of the 36 PRIs were to CDFIs or other intermediaries that relend or invest the proceeds for stated purposes. Seven borrowers were community development corporations or social enterprises.

For programmatic and risk management reasons, staff makes most PRIs to organizations with which the foundation has or has had a grant relationship. Twenty-four of 36 PRI borrowers or investees (67 percent) are current or former grantees.

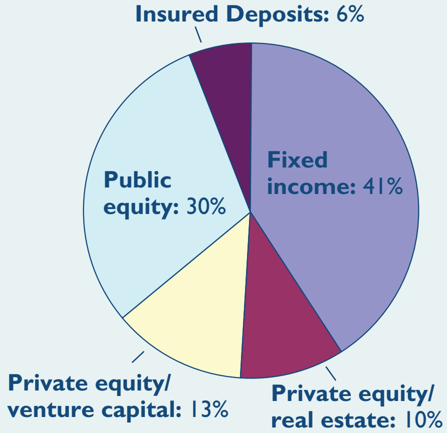
Two institutional asset managers manage separate fixed-income portfolios on behalf of the foundation. The portfolios consist of targeted mortgage-backed securities, taxable municipal bonds, and privately placed notes that further the foundation's programmatic goals. The annualized total return since inception (June 2001) was 5.54 percent compared with 5.57 percent for the Barclays Capital U.S. Aggregate Bond Index.

FIGURE B3. MARKET-RATE MRIs

Investments	Dollar Amount (millions)
Commitments outstanding	$89.3
Fixed-income commitments to date	$40.0
Public equity commitments to date	$30.0
Private equity capital balance	$8.2
Insured deposits	$5.8
Private equity unfunded commitments	$5.4
Private equity cash distribution to date	$9.2

Note: Dollar figures are rounded.

TOTAL COMMITMENTS



State Street Global Advisors manages a public equity portfolio consisting of companies in the U.S. Community Investing Index – 365 U.S. large- and mid-cap firms with "best in class" performance based on community investing criteria. The annualized total return since inception (November 2005) was -0.42 percent compared with -0.62 percent for the S&P 500.

Heron has committed $23 million to 11 private equity funds since 2000 (see box). These funds target market-rate opportunities in low- and moderate-income communities.

The foundation has placed insured deposits in 21 community development banks and nine low-income-designated credit unions in 20 states and the District of Columbia (Table B3). One-quarter of the deposits were in rural institutions. The weighted average return on these deposits – 2.6 percent – compared with a 0.21 percent return for the Bank of America Merrill Lynch 3-Month Treasury Bill Index.

PRIVATE EQUITY FUNDS IN HERON'S PORTFOLIO

- Bay Area Equity Fund I, LP
- Bay Area Smart Growth Fund I, LLC
- California Smart Growth Fund IV, LP
- Canyon-Johnson Urban Fund II, LP
- Genesis Workforce Housing Fund, LLC
- ICV Partners, LP
- Huntington Capital Fund II, LP
- UrbanAmerica I, LP
- UrbanAmerica II, LP
- Yucaipa Corporate Initiatives Fund I, LP
- Yucaipa Corporate Initiatives Fund II, LP

TABLE B3. MARKET-RATE INSURED DEPOSITS

Factors	Performance
Number of certificates of deposit (CDs) in community development banks and credit unions	30
Dollar value of CDs outstanding	$5.75 million
Dollar value of new CDs (2009)	$3.60 million
Average maturity (months)	23
Interest rate (weighted average)	2.6%

Note: Dollar figures are rounded.

APPENDIX C: ADDITIONAL RESOURCES

Impact investing resources – publications, newsletters, articles, event calendars, training opportunities, and more – are available from the philanthropic sector and social investing industry. Affinity groups and associations include:

- **As You Sow Foundation:** http://www.asyousow.org. For guidance on shareholder activism.
- **CDFI Coalition:** http://www.cdfi.org/index.php. A trade association of community development financial institutions (CDFIs). Its Web site provides information about this sector and links to trade associations of different CDFI types, such as banks, credit unions, loan funds, venture funds, and microenterprise funds.[43]
- **Global Impact Investing Network:** http://www.thegiin.org/cgi-bin/iowa/home/index.html. A forum for identifying and addressing the systemic barriers that hinder the impact investing industry's efficiency and effectiveness. The network supports collaboration, develops industry infrastructure, and conducts research.
- **Interfaith Center on Corporate Responsibility:** http://www.iccr.org. For guidance on shareholder activism.
- **More for Mission:** http://www.moreformission.org. Three private foundations launched this campaign, which encourages and supports impact investing by private and community endowments and institutional investors. More for Mission develops a broad range of informational and institutional resources, contributing to the knowledge necessary for an informed group of investors to leverage their portfolios to support their mission while maintaining long-term targeted financial returns.
- **PRI Makers Network:** http://www.primakers.net. A trade association of about 125 foundations that make or plan to make program-related investments. Resources include a national conference, intensive training through the PRI Institute, a member database of PRI activity, a listserv, webinars, and much more.
- **Social Investment Forum:** http://www.socialinvest.org. A national, nonprofit membership organization that promotes the concept, practice, and growth of socially and environmentally responsible investing. It also sponsors the Community Investing Center at http://www.communityinvest.org.

The Council on Foundations (http://www.cof.org) and regional grantmakers associations also provide impact investing resources and host events as part of their general programming.

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[43] For foundations that do not have access to a strong local CDFI, national CDFIs and CDFI-like intermediaries are interested in partnering with them to develop customized impact investing programs. These entities include, but are not limited to, the Calvert Social Investment Foundation, Living Cities, NCB Capital Impact, the Nonprofit Finance Fund, the Opportunity Finance Network, and the Urban Partnership Bank.

APPENDIX D: INTERVIEWEES

Dean Adams, Chris Conley
Community Health Facilities Fund

Dione Alexander, Clara Miller, George Overholser
Nonprofit Finance Fund

Gil Alvarado, Chet Hewitt
Sierra Health Foundation

Nancy O. Andrews
Low Income Investment Fund

Thomas Aschenbrener, M. David Hooff
Northwest Health Foundation

Elise Balboni
Local Initiative Support Corporation

Phillip Baldwin
Southern Bancorp

Nancy Barrand, Peggi Einhorn, Ed Ghisu, Jasmine Hall Ratliff
Robert Wood Johnson Foundation

Philip Belcher
Mary Black Foundation

Shari Berenbach, Lisa Hall
Calvert Foundation

Peter Berliner
PRI Makers Network

Michelle Anne Bholat
Department of Family Medicine
University of California, Los Angeles

Steven Bingler
Concordia Consulting

Guillermo Borda
BAML Capital Access Funds

Pablo Bravo, Tan Vo
Catholic Healthcare West

Anne Claire Broughton
SJF Ventures

William Buster, Tom Reis
W.K. Kellogg Foundation

Tina Castro, Dan De Leon, Kathlyn Mead, Robert Ross
The California Endowment

David Chen
Equilibrium Capital

Elyse Cherry
Boston Community Loan Fund

Virginia Clarke-Laskin
Sustainable Agriculture & Food Systems Funders

Allison Coleman, Mary Ann Wayne
Capital Link

Kimberlee Cornett, David Fukuzawa
The Kresge Foundation

Elizabeth Cushing
Playworks

Stephen DeBerry
Bronze Investments, Mitchell Kapor Foundation and Kapor Trust

Annie Donovan, Cynthia Muller, Scott Sporte
NCB Capital Impact

Penelope Douglas, Eduardo Rallo
Pacific Community Ventures

Gary Drews, Kelly Dunkin, Anne Warhover, Stan Willie
The Colorado Health Foundation

Robert Embry
Abell Foundation

David Erickson, Ian Galloway
Federal Reserve Bank of San Francisco

Michael Golden
The Benefit Bank

Kristen Groos Richmond
Revolution Foods

Lisa Hagerman, David Wood
More for Mission

Russ Hall
Legacy Venture

Susan Harper, Dan Letendre
Bank of America

Keecha Harris
Keecha Harris & Associates

Ben Hecht
Living Cities

Owen Heleen, Michael Jenkinson
The Rhode Island Foundation

Aimee Hendrigan, Robert Hohler
Melville Charitable Trust

Sara Horowitz, Meghan Murphy
Freelancers Union, Freelancers Insurance Company

Doug Jutte
School of Public Health
University of California, Berkeley

Lisa Kleissner
KL Felicitas Foundation

James Knickman
New York State Health Foundation

Debbie Kobak
Urban Partnership Bank

Margaret Laws, Craig Ziegler
California HealthCare Foundation

Holden Lee, Jessica Matthews
Cambridge Associates

Karen Lehman
Fresh Taste

David Levitt
Adler & Colvin

Lance Lindblom, Laura Shaffer Campos
The Nathan Cummings Foundation

Trinita Logue
IFF

Christine Looney
Ford Foundation

Kelly Mason
Omidyar Network

William McCalpin, Luther Ragin, Jr.
F.B. Heron Foundation

Jeremy Nowak, Margaret Berger Bradley, Lori Glass, Don Hinkle-Brown
The Reinvestment Fund

Alvertha Penny
California Community Foundation

Nancy Pfund
DBL Investors

Ron Phillips, Charles J. Spies
Coastal Enterprises Inc., CEI Capital Management

Susan Phinney Silver
The David and Lucile Packard Foundation

Wayne Pierson, Doug Stamm
Meyer Memorial Trust

Preston Pinkett III
Prudential Social Investments

Raúl Pomares
Springcreek Advisors

Adam Porsch, Julie Sunderland
Bill & Melinda Gates Foundation

Debbie Rooney
Vermont Community Foundation

Kalima Rose
PolicyLink

Will Rosenzweig
Physic Ventures

Jeanne C. Ryer
Endowment for Health

Debra Schwartz, Allison Clark
The John D. and Catherine T. MacArthur Foundation

David Shryock
SB Partners

Phyllis Snyder, Pam Tate
Council for Adult & Experiential Learning

BOB TAYLOR
Wells Fargo

JENNIFER TESCHER, ARJAN SCHÜTTE
Center for Financial Services Innovation, Core VC Fund

BARBARA VANSCOY
Community Capital Management

CHRISTA VELASQUEZ
The Annie E. Casey Foundation

BILL WALCZAK
Codman Square Health Center

DENNIS WHITE
MetLife Foundation

RACHEL M. WICK
Consumer Health Foundation

BILL WILDMAN, JOHN SNYDER
RBC Capital Markets

SARAH WOLFF
Self-Help Credit Union

APPENDIX E: REGULATORY CONSIDERATIONS FOR IMPACT INVESTING BY FOUNDATIONS

Considerations	Type of Foundation	
	Community	**Private**
Foundation structure	• Exempt from federal income tax under Section 501(c)(3) of the Tax Code and must comply with its requirements and prohibitions • Classified as public charities under the IRS public support test, based on normally receiving at least one-third of their support from the general public (including government agencies and foundations). An organization that fails this automatic test may still qualify as a public charity if its public support equals at least 10 percent of all support and it also has a variety of other characteristics, such as a broad-based board, that make it sufficiently "public" (Council on Foundations 2008). • Philanthropic institutions that are tax-exempt, nonprofit, autonomous, publicly supported, and nonsectarian. In addition, they have a long-term goal of building permanent, named component funds established by many separate donors to carry out their charitable interests and for the broad-based charitable interest and benefit of residents of a defined geographic area, typically no larger than a state (Community Foundations Leadership Team 2008).	• Exempt from federal income tax under Section 501(c)(3) of the Tax Code and must comply with its requirements and prohibitions • Generally have endowments from a single source, such as a family or corporation, and tend not to seek public financial support (Council on Foundations 2010)[44]

[44] Types of private foundations include independent foundations. They are generally governed by 1) an independent board and not controlled by a donor, donor's family, or corporation; 2) a family – the donor or donor's relatives have a significant governing role; or 3) a corporation – the foundation is company-sponsored but legally separate. The vast majority of foundations are private, non-operating (grantmaking) foundations.

Impact Investing		
	Type of Foundation	
Considerations	**Community**	**Private**
Motivation	• To have a charitable impact • To align assets with the mission • To meet donor demand • To develop donor interest • To raise the visibility of investment needs within the community • PRI principal that is repaid can be recycled as new PRIs or grants	• To have a charitable impact • To align assets with the mission • To manage resources, such as smoothing distributions • Program-related investment (PRI) can help meet payout, if desired • PRI principal that is repaid can be recycled as new PRIs or grants
Operation	***In-house:*** • Best to involve program, financial, and legal units • Interaction with donors, boards, and management of supporting organizations and agencies may be helpful. ***External:*** • Interaction with trustee bank(s) and a range of financial advisers is likely to be necessary. • Support from investment managers, consultants, intermediaries, and legal specialists may be helpful.	***In-house:*** • Best to involve program, financial, and legal units ***External:*** • Support from investment managers, consultants, intermediaries, and legal specialists may be helpful.
Governance	• Board or its subcommittee • Bank trustees may have control over certain funds. • Investment decisions may be delegated to staff committees. • Donor advisers or supporting organizations make requests.	• Board or its subcommittee • Investment decisions may be delegated to staff committees or the foundation president.
Funding sources	• Unrestricted funds, supporting organization, donor-advised funds or agency endowments • Expense budget (grant allocation from unrestricted funds)	• Grants budget • Endowment • Dedicated pool
Regulatory accounting and reporting	• IRS does not define PRIs for community foundations; practitioners use the same definition in the Tax Code of 1969 that applies to private foundations. (See adjacent cell.) • No minimum distribution requirement, but community foundations typically establish a spending policy and may fund PRIs from grant payout. • Repaid PRI principal can be treated like any other repaid investment principal. • As with any public charity, a community foundation must operate primarily for a charitable purpose; *Column continues on next page*	• PRIs for private foundations are defined in the Tax Code of 1969 as investments for which the primary purpose is charitable or exempt as defined under Section 170(c)(2)(B) of the Internal Revenue Code; no significant purpose is the production of income or appreciation of capital; and no purpose is lobbying or other political activity prohibited under Section 170(c)(2)(B). • PRIs can be counted as part of a private foundation's 5 percent distribution requirement. *Column continues on next page*

<table>
<tr><th rowspan="2">Considerations</th><th colspan="2">Type of Foundation</th></tr>
<tr><th>Community</th><th>Private</th></tr>
<tr><td></td><td>only an insubstantial part of its activities may be devoted to a non-charitable purpose. For any impact investment intended to be a program-related charitable activity of the community foundation, the foundation must determine that it is making the investment primarily to accomplish the organization's exempt purposes rather than to produce income, and that no private inurement or excess private benefit is involved.[45]
• As with grant requests, community foundations considering an investment from the expense budget to a non-501(c)(3) should first determine whether its organizing documents permit such an investment. Does the charter, certificate of incorporation, or deed of trust restrict grantmaking to 501(c)(3) organizations? Is there a provision in the by-laws or a directive from the board that restricts grantmaking or disbursements to 501(c)(3) entities? If there is no restriction, the foundation can consider the investment.[46]
• Although the IRS does not define PRIs for community foundations, Form 990 specifies how to report them. In "Part I. Revenue, Expenses, and Changes in Net Assets or Fund Balances," income from PRIs is reported as and with program service revenue, rather than as or with income from other types of investments. In "Part IV. Balance Sheets," PRIs are included with other assets.[47]
Column continues on next page</td><td>• Repaid PRI principal adds dollar for dollar to the distributable amount in the year repaid.
• The value of PRIs outstanding is not counted in total assets used to calculate the distribution requirement.
• A defaulted PRI can be treated as a grant.
• The income from PRIs is treated as investment income.
• UBIT may apply, particularly to market-rate impact investments.
• PRIs are reported in designated sections of IRS Form 990-PF.
• Qualifying PRIs are excluded from regulations that govern jeopardizing investment and excess business holding.
• Self-dealing rules apply.
• Expenditure responsibility is generally required for PRIs in entities that are not 501(c)(3) public charities or foreign organizations that can demonstrate they are the equivalent of a U.S. public charity.
• Market-rate, mission-related investments (MRIs) are subject to the standard fiduciary guidelines that apply to any foundation endowment investment. "Mission-related investment" is not a regulatory term and there are no special regulations that apply to MRIs.</td></tr>
</table>

[45] If an investment did not qualify as charitable, it could be deemed an imprudent investment for the community foundation and might generate unrelated business income tax. However, there are no excise taxes for the IRS to impose as there are for a private foundation investment that failed to qualify as a PRI (Levitt 2011).

[46] See also Nober, Jane C., *Economic Development: A Legal Guide for Grantmakers* (Arlington, VA: Council on Foundations, 2005). It provides legal analysis of charitable tax law, including implications for PRIs. The guide contains specific guidance for private foundations, community foundations, and corporate grantmakers, although readers need to refer to laws, such as the Pension Protection Act of 2006, that were enacted after 2005.

[47] Instructions regarding treatment of PRIs on Form 990-PF and Form 990 are available at, respectively, http://www.irs.gov/pub/irs-pdf/i990pf.pdf and http://foundationcenter.org/findfunders/f990_sample.pdf. Note: variations may apply for international PRIs on Form 990, Schedule F; see http://www.irs.gov/charities/article/0,,id=212213,00.html.

Considerations	Type of Foundation	
	Community	**Private**
	• As with foundation investments generally, unrelated business income tax (UBIT) may apply, particularly to market-rate impact investments that do not meet the IRS criteria for being "substantially related" (IRS 2010c). • Although community foundations are not subject to the expenditure responsibility rules for private foundations, the rules can guide managers who seek to ensure and demonstrate that grants to non-5(c)(3)s are truly charitable expenditures (Nober 2010). Such guidance is also applicable to below-market-rate impact investments. • Community foundations are not subject to federal tax prohibitions against self-dealing, excess business holdings, or jeopardy investments. They are subject to federal prohibitions that apply to charitable institutions, such as the restriction on private inurement and excess benefits. As a result, analysis of federal tax law relevant to impact investments focuses on the rules applicable to private rather than community foundations. However, state fiduciary laws and the Pension Protection Act of 2006 apply to both private and community foundations (IRS 2010d; Stetson and Kramer 2008). • Differences between the self-dealing prohibition applicable to private foundations and rules governing excess benefits applicable to public charities arise because they involve different sections of the Tax Code. Self-dealing falls under Section 4941, which prohibits a broad range of transactions involving a private foundation and its disqualified persons (regardless of the amounts paid or received) and then provides limited exceptions to these restrictions. If a transaction falls into a prohibited category of self-dealing and is not subject to an exception, the transaction is prohibited and an excise tax applies. Excess benefit transactions are defined under Section 4958 regarding nonprivate foundation charities and *Column continues on next page*	

Considerations	Type of Foundation	
	Community	Private

	(c)(4) social welfare organizations. Unlike the absolute prohibition on self-dealing, transactions between a public charity and its disqualified persons (separately defined for purposes of Section 4958) are permitted as long as the disqualified person is not receiving an "excess benefit." Thus, for a public charity engaged in transactions with its insiders, a key issue is determining fair market value of the benefits received (Levitt 2010).
	• Private inurement is a general tax concept that applies across the board to charities and certain other types of exempt organizations. While there is no Tax Code section or regulation that precisely defines inurement, it involves benefit to persons who have a close relationship with the organization and who may be able to exercise control over the organization as a result of this relationship (Levitt 2010).
	• Under the Pension Protection Act of 2006, certain distributions from donor advised funds are treated as "taxable distributions." Such distributions are subject to excise taxes similar to those that apply to private foundations, unless the sponsoring organization – in this case, a community foundation – exercises expenditure responsibility. These include any distribution to:
	  • an organization that is not a public charity;
	  • a nonfunctionally integrated type III supporting organization; or
	  • a supporting organization controlled by the donor or a donor adviser of the fund (Minnesota Council on Foundations 2009).
	• Market-rate MRIs are subject to the standard fiduciary guidelines that would apply for any foundation endowment investment. "Mission-related investment" is not a regulatory term and there are no special regulations that apply to MRIs.	

Source: Author.

EXPENDITURE RESPONSIBILITY

To meet the expenditure responsibility requirements in making a PRI (as for a grant), a private foundation must require that each investment be made subject to a written commitment, signed by an appropriate officer, director, or trustee of the recipient organization, specifying the purpose of the investment. In this commitment, the organization agrees to:

- use all amounts received from the private foundation only for the purposes of the investment and to repay any amount not used for those purposes, provided that, for equity investments, the repayment is within the limitations concerning distributions to holders of equity interests;
- submit, at least once a year, a full and complete financial report of the type ordinarily required by commercial investors under similar circumstances and a statement that the organization has complied with the terms of the investment;
- keep adequate books and records, and make them available to the private foundation at reasonable times; and
- not use any of the funds to carry on propaganda, influence legislation, influence the outcome of any public elections, carry on voter registration drives, or, when the recipient is a private foundation, to make grants that do not comply with the requirements regarding individual grants or expenditure responsibility (IRS 2010e).

APPENDIX F:
SUMMARY OF HEALTH-FOCUSED IMPACT INVESTING PROFILES*

	PRI						MRI						
Investment Structure/ Asset Class	**Real Assets**	**Equity**	**Sub-Debt**	**Senior Debt**	**Deposits**	**Guarantee**	**Deposits**	**Fixed-income**	**Public Equities**	**Private Equity**	**Real Assets**	**Examples of Funds, Intermediaries, and Projects**	**Examples of Investors**
Health Care Health centers			X	X		X		X				• Capital Link, IFF, Low Income Investment Fund, NCB Capital Impact, Nonprofit Finance Fund, and regional community development financial institutions (CDFIs) • Community Capital Management (fixed-income manager that buys original loans)	• Foundations: California Community, California HealthCare, Consumer Health, Endowment for Health, Marion I. & Henry J. Knott, Kresge, Marin Community, MetLife, Rhode Island, and Colorado Health • Catholic Healthcare West
Health products and innovations		X	X					X		X		Catamount Ventures, DBL Investors, Equilibrium Capital, PCV Fund, Physic Ventures, and SJF Ventures	• Foundations: Abell, Annie E. Casey, Ford, Mitchell Kapor, W.K. Kellogg, John D. and Catherine T. MacArthur, David and Lucile Packard, and Rockefeller, and • Omidyar Network
Health care workforce development			X									• Workforce development: Cooperative Home Care Associates, NCB Capital Impact, and Northcountry Cooperative Development Fund; Council for Adult & Experiential Learning • Workforce benefits: employer-assisted housing	• Foundations: Ford, MacArthur, Casey, and others • Hospital/health systems: Johns Hopkins, University of Pennsylvania, and University of Chicago
Health Coverage Insurance				X								Freelancers Insurance Company	Foundations: Ford, New York State Health, and Prudential
Family economic security		X			X		X			X		CDFI depositories, certain alternative financial services, and equity funds that promote worker benefits	• Foundations: Mary Reynolds Babcock, Ford, F.B. Heron, Kellogg, Prudential, and Rockefeller • Catholic Healthcare West

Chart continues on next page

Investment Structure/ Asset Class	PRI						MRI					Examples of Funds, Intermediaries, and Projects	Examples of Investors
	Real Assets	Equity	Sub-Deb	Senior Debt	Deposits	Guarantee	Deposits	Fixed-income	Public Equities	Private Equity	Real Assets		
Healthy Community Human development: mind		X	X	X		X		X		X		• Acelero Learning and CDFIs with youth and quality education lending programs • Foundation guarantees on loans and bond issues for quality charter schools and charter management organizations	Foundations: Broad, Casey, Bill & Melinda Gates, Hutton Parker, Kellogg, Kresge, Packard, Prudential, and Walton Family
Human development: body		X	X	X	X	X	X	X		X		The Reinvestment Fund; Low Income Investment Fund; City of Spartanburg, South Carolina; Urban Juncture; Revolution Foods; CDFI depositories, RSF Social Finance, and Playworks	Foundations: Casey, Ford, Jenesis Group, MacArthur, Mary Black, Kellogg, and Robert Wood Johnson
Affordable housing	X		X	X	X	X	X	X		X		• Many urban and rural CDFIs, some of which specialize in rural, supportive, and long-term care housing • Habitat for Humanity and Community Capital Management	Foundations: California Community, Casey, Ford, Heron, Kellogg, MacArthur, Robert Wood Johnson, and Melville Charitable Trust
Jobs, income, and benefits		X	X	X	X	X	X	X		X		• CDFI business lenders and investors • Private equity funds listed above in "Health products and innovations" • Community Capital Management	Foundations: Mary Reynolds Babcock, Cleveland, Ford, George Gund, Heron, MacArthur, and Kellogg
Environmental sustainability			X	X	X	X	X	X		X	X	Sea Change Investment Fund; Enterprise Community Loan Fund; Equilibrium Capital; Community Capital Management; and CDFIs, including members of the Triple Bottom Line Collaborative	Foundations: Babcock, Mary Black, Casey, Ford, Packard, Russell Family, and Meyer Memorial Trust
Community and equity	X		X							X	X	• Real estate: Resident Owned Communities USA, various land trusts (residential), and nonprofit shared space • On-line: PatientsLikeMe and InnoCentive	• Foundations: Ford, New Hampshire Charitable, Marin Community, Meadows, Northwest Health, Kellogg, and Sierra Health • Omidyar Network

Source: Author.

*Table summarizes impact investments profiled in this guide. The field encompasses a greater variety of impact investments than reflected here.

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