

# COMMUNITY DEVELOPMENT & INVESTMENT

## IMPACT INVESTING SUMMARY

### FOCUS ON COMMUNITY

#### Investing for Impact

We believe that true community revitalization starts at the neighborhood level through the empowerment of residents and that our role is to bring financial capital which can be leveraged by nonprofit and foundation partners to create real sustainable change. In the past three years we have invested over

\$1 billion in capital in underserved communities. The Bank has been an active investor in Community Development Financial Institutions (CDFI) for over twenty years taking a leadership role in both commitments and funding but also in the

development of new finance structures and partnerships. Working closely with our community partners, we take on the role of the “gap” provider as we look to fill areas of need unmet by other investors. We structure investments to provide maximum benefit to create deeper, more substantial and sustainable community impacts.

A leader in innovative community development finance, the Bank has invested in two Social Impact Bonds. The first investment targeted the expansion of high quality early childhood education in Chicago and the second addressed homeless in Denver. In both, Northern provided

concessionary capital leveraging investments made by local foundations to create a new funding source for service providers and allowing government to pay for social interventions which work.

We also invest directly in nonprofit partners to aid in

the completion of projects and programs and invest in Low-Income Housing Tax Credits, New Markets Tax Credits and Small Business Investment Corporations as well as marketable securities which benefit low and moderate income families and communities.

“AS A LONG TERM INVESTOR IN COMMUNITIES WE HAVE THE ADVANTAGE OF SEEING WHAT WORKS AND THE TRANSFORMATION WHICH CAN OCCUR IN FAMILIES AND COMMUNITIES WITH ACCESS TO CAPITAL AND INNOVATIVE STRUCTURES”

DEBORAH KASEMEYER, DIRECTOR  
COMMUNITY DEVELOPMENT &  
INVESTMENTS

### INVESTMENTS BY IMPACT AREA

We track impacts of investments in four categories – Education, Social Service & Health, Affordable Housing, Job Creation, and Wealth Accumulation.

Early investments were heavily focused on affordable housing and represent 81% of the current portfolios, more recent investments have been focused on Education & Social Service which is 8% of the total. Job Creation represents 7% of the portfolio and Wealth Accumulation is 3%.

The portfolio is concentrated in urban underserved areas, but a greater effort is being placed on developing investment opportunities in underserved rural areas where there are greater capital gaps.

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

### CDFI/ Nonprofit Investing

Our first CDFI investment was made in 1995 and we have continued to be a consistent partner to CDFI's of all size taking care to provide capital which is tailored to help the CDFI maximize its impacts. We invest in large national CDFI's such as LISC and Enterprise Community Partners, regional CDFI's such as IFF and Capital Impact Partners and smaller local CDFIs such as Wisconsin Women's Business Investment Company (WWBIC) and Chicago Community Loan Fund. We use the Aeris CDFI rating system and analysis where available in our underwriting and valuation process. We do not use standard investment products but structure investments according to the needs of the CDFI. Our investment terms are usually between 5 and 15 years with below market rates. Loan pool investments follow the pool structure and can be up to a 30 year term with rates from the pooled loans passed to pool investors. We also invest directly into high performing nonprofits to assist with capital needs for variety of purposes.

## COMMUNITY DEVELOPMENT BANKS

### Bank and Low Income Credit Unions

We invest in community development banks and low income credit unions through equity investments, deposits and secondary capital. In addition to providing capital which has supported product development such as payday alternative loans, we also worked with a nonprofit in Chicago on the initial funding for the purchase of a failed bank by a CDFI which kept the institution's clients and its large ITIN mortgage portfolio intact.

## SOCIAL IMPACT BONDS

### SIB/Pay for Success

To date we have originated two Social Impact Bonds (SIBs) an innovative community development finance tool which allows an entity which traditionally pays for social services (such as government entities) to only pay for social services which have proven to work in delivering contracted outcomes. The first SIB investment provided financing for the expansion of a successful Child Parent Center Pre-K program in Chicago in late 2014. We are only repaid our \$5.6 million investment by Chicago Public Schools and the City of Chicago if the program meets it's agreed upon impacts as verified by an independent evaluator. The second SIB investment closed in February of 2016 and provides housing and wrap around services to homeless individuals in Denver who are high utilizers of services such as jail and emergency rooms. We are only repaid our \$3.5 million investment by the City of Denver if the agreed upon success measures are met as verified by an independent evaluator. In both investments the capital stack involved foundations as investors and we played the role of structuring the financial transaction. Also in both, we reduced our return and gave up our back end profits to the nonprofit providers to further strengthen the community impacts of the projects. We continue to evaluate other potential SIB transactions in other markets.

## TAX ADVANTAGED INVESTMENTS

### New Market Tax Credits/Low Income Housing Tax Credits

We invest in Low Income Housing Tax Credits (LIHTC) to support the continued growth of affordable rental housing and work with both nonprofit and for profit syndicators. While we do not yet have our own allocation of New Market Tax Credits (NMTC), we do have a subsidiary Community Development Entity (CDE) and have applied in the most recent allocation round. We are active in NMTC finance providing both debt and equity at rates which increase the impact of the investments and expand the value of the credits to the underlying projects and communities served. Our most recent NMTC transaction provided an opportunity for us to drive change and provide capital to traditionally underserved rural areas through a partnership with Rural LISC and its subsidiary New Markets Support Corporation. Our investment of \$8.1 million is divided between debt and equity at favorable rates which will create a capital pool for loans originated by Rural LISC. The terms of our NMTC investment allow for higher LTV and lower interest rates for LISC borrowers who lack access to credit due to their rural locations.

## SMALL BUSINESS INVESTMENT CORPORATIONS

### SBIC Investments

Small Business Investment Corporations or SBICs are venture capital investments in a private equity fund which participates with the SBA program. SBIC's provide a variety of capital to businesses of different sizes with the goal of increasing the size and success of the business and its ability to create employment opportunities. The ability to create jobs is the primary community development purpose of these investments.

#### About Northern Trust

Northern Trust Corporation (Nasdaq: NTRS) is a leading provider of wealth management, asset servicing, asset management and banking to corporations, institutions, affluent families and individuals. Founded in Chicago in 1889, Northern Trust has offices in the United States in 19 states and Washington, D.C., and 20 international locations in Canada, Europe, the Middle East and the Asia-Pacific region. As of March 31, 2015, Northern Trust had assets under custody of US\$6.1 trillion, and assets under management of US\$960.1 billion.

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