

TRI-STATE WEBINAR SERIES
COMMUNITY FOUNDATIONS TACKLING
IMPACT INVESTING



WELCOME TO
OUR TRI-STATE
PARTNERS!



This Program was developed in
partnership with:



WELCOME



ANDREA JUDD

Program Coordinator

Council of Michigan Foundations

WE'RE LIVE TWEETING



@MissionInvest
#MIELIVE



TECHNICAL TROUBLE

800-843-9166

HELP@READYTALK.COM

QUESTIONS AND DISCUSSION

**WE WILL MUTE PARTICIPANTS'
PHONE LINES DURING THE
PRESENTATION TO IMPROVE
SOUND QUALITY.**

**PLEASE USE THE “CHAT” FEATURE
AT ANY TIME TO ASK A
QUESTION.**

INTRODUCTION



DEBBIE MCKEON

Council of Michigan Foundations

@DebbieMcKeon

TODAY'S PRESENTERS



Melanie Audette
Mission Investors Exchange
@MissionInvest @melaudette



Bonnie Gettys
Barry Community Foundation
@bonnie_gettys



Jennifer Oertel
Jaffe Raitt Heuer & Weiss, PC



Neel Hajra
Ann Arbor Area Community
Foundation
@AAACF @neelhajra

TODAY'S WEBINAR

- INTRODUCTORY-LEVEL
- INTERACTIVE! – CHAT QUESTIONS THROUGHOUT
- PROBLEM-FIRST APPROACH
- TOLD THROUGH SPECIFIC STORIES WITH CREATIVE APPROACHES TO SOLUTIONS
- BACK-FILL WITH LEGAL NUTS & BOLTS
- YOUR PARTICIPATION FOR Q AND A

CONTEXT

- SCOPE FOR FOUNDATIONS
- GROWTH IN INTEREST AND RATES OF ADOPTION
- TREND TO PLACE-BASED SOLUTIONS
- CMF PARTNERSHIP WITH MIE
- LEADS US TO EVOLVE OUR PROGRAMMING
- THIS WEBINAR IS A LEAD-IN TO OUR INSTITUTE

CONTEXT

- WHAT IT'S LIKE TO RUN A CF
- TYPES OF ISSUES YOU ARE CHALLENGED WITH
- RESOURCES AVAILABLE
- COMMUNITY-CENTERED APPROACHES
- APPLYING TODAY'S CONTENT TO YOUR NEEDS

IMPACT INVESTING MOST COMMONLY DEFINED AS...

Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

BARRY COMMUNITY FOUNDATION

- Founded in 1995
- Serves Barry County, MI (population 60,000)
- \$34 million
- 13 trustees
- Separate Impact Investing Committee
(comprised of representatives of BCF & Barry
County Economic Alliance)
- PRI program and first loan 2012, using all
loanable assets (1.35 Million)

Impact
Investments

Behind the
Scenes



BARRY COMMUNITY FOUNDATION

The Journey

- Five Families approached the foundation, requesting our assistance in creating a perpetual fund that would support low interest loans for Niche market opportunities that were missing funding
- Great Lakes Capital Fund, a CDFI (community development financial institution) in Lansing Michigan provided the financial analysis and presented recommendations based on risk/risk mitigation

Impact
Investments

Behind the
Scenes



BARRY COMMUNITY FOUNDATION

The Journey

- Partners – Developer, Hastings City Bank, SBAM small business loan fund, an investor and BCF provided loans/capital and the Economic Development Alliance and the Joint Planning Alliance, created a joint services agreement for city water and sewer infrastructure.

Impact
Investments

Behind the
Scenes



BARRY COMMUNITY FOUNDATION

The Journey

- The 20-year loan has a .741% rate for years 1-2 and a 3.75% rate for years 3-10; the rate is to be negotiated for the final 10 years. As the loan is repaid, the Barry Community Foundation plans to use the interest to make grants, and the principal to make other mission investments.

Impact
Investments

Behind the
Scenes



Identifying Legal Concerns

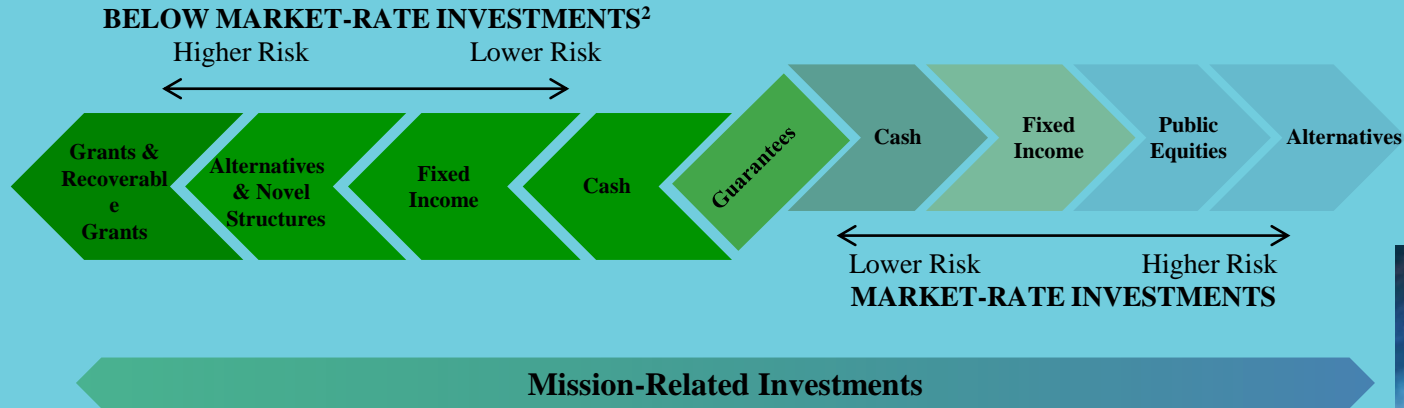
- Fiduciary Duties
- UPMIFA
- UBTI
- Securities Laws (state and federal)
- DAF-Requirements or Restrictions



Impact investing is most commonly defined as...

Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

- Any asset class or structure (cash, fixed income, equity, etc.)
- Any expected financial return (interest rate, dividend, capital gain)
- Same fiduciary care as any institutional investment



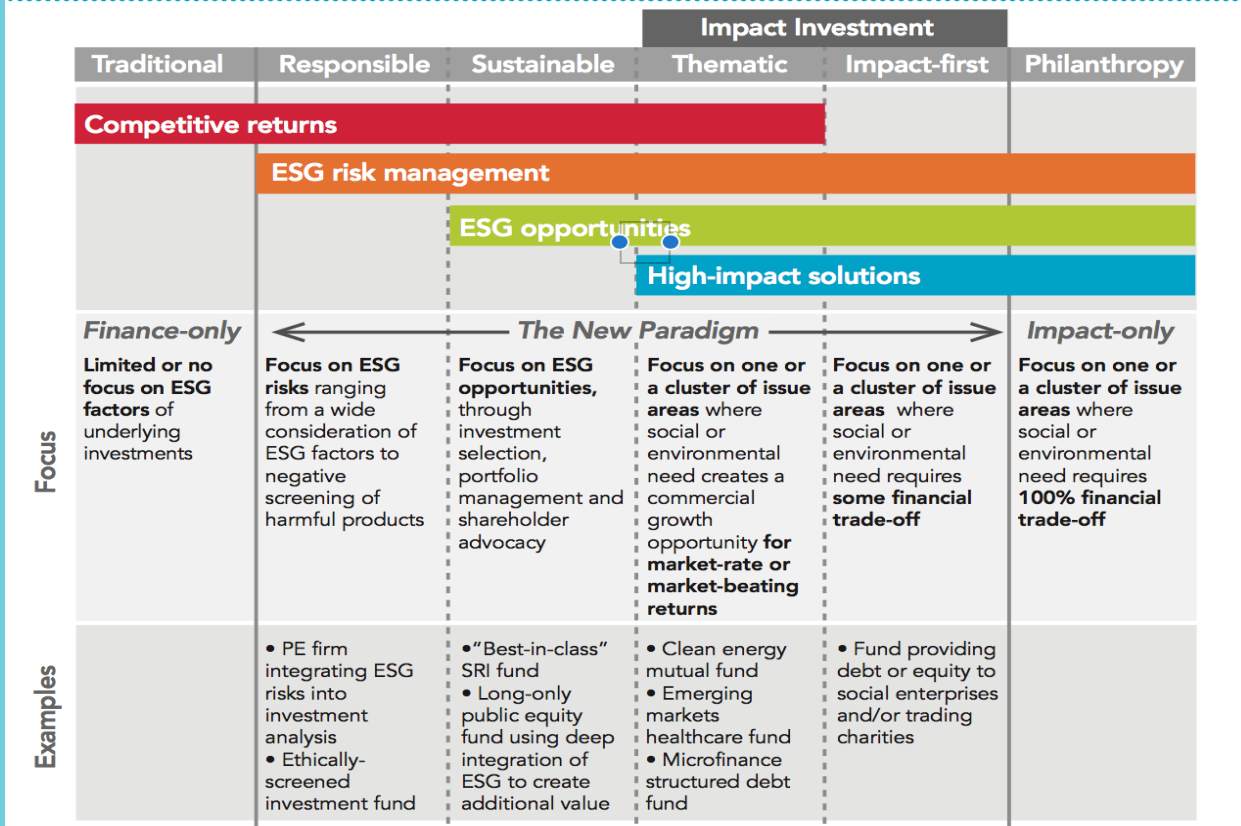
¹ Global Impact Investing Network,

² F.B. Heron Foundation.

Unifying our Language

Spectrum of Capital

Source: Bridge Ventures, 2012



Unifying our Language

- PRI vs. MRI
- TOOL TYPES AND HOW TO DECIDE
- DIRECT vs INDIRECT
- YOUR QUESTIONS



Creating and/or Investing in Funds

Private foundation's capital contributions to a fund organized to invest in businesses in low-income communities qualify as a PRI, and expenses incurred and to be incurred by Foundation, including costs of establishing and maintaining fund, providing educational programming to individual fund members, and ensuring fund compliance with law, all count as qualifying distributions (toward the Foundation's minimum distribution requirement, and not as taxable expenditures).



EXAMPLE:

Creating and/or Investing in Funds

- Fund is organized for purposes of investing in businesses in low-income communities, owned or controlled by members of a minority or other disadvantaged group.
- Not been able to obtain conventional financing on reasonable terms and that will provide benefits to the community.
- Other investors in the fund include professional athletes as well as owners, coaches or managers of professional sports teams.
- Investors are required to participate in an educational program regarding angel investing and entrepreneurship which is provided by the Foundation.



ANN ARBOR AREA COMMUNITY FOUNDATION

Overview

- Founded in 1963, serves Washtenaw County, MI (population 330,000)
- \$80M total assets (\$60M permanently endowed, \$18M donor-advised, \$2M in other assets)
- 17 trustees, no separate Impact Investing Committee
- PRI program and first loan attempt launched in 2012, first successful loan in 2015, second loan in 2016
- www.aaacf.org



Ann Arbor Area
Community Foundation

ANN ARBOR AREA COMMUNITY FOUNDATION

First Loan Attempt (2012)

- Goal: help enable a rapidly growing charter school to **serve more (and older) students.**
- Proposed **\$175,000 construction loan** as part of a \$3.3M project for facility acquisition and refurbishment.
- AAACF partnered with the **Nonprofit Finance Fund** for financial due diligence



Ann Arbor Area
Community Foundation

ANN ARBOR AREA COMMUNITY FOUNDATION

First Loan Attempt (2012)

- ❖ **Source of capital was a donor-advised fund**, the advisor to which was on the board of the school
- ❖ Board approved a three-person **Impact Investing Committee** (a local banker, an Investment & Finance Committee member, and a trustee with finance background)
- ❖ Relevant documents included the board-approved committee charter, financial diligence reports, and a PRI Agreement.
- ❖ Diligence revealed **too many concerns** to make the loan.



Ann Arbor Area
Community Foundation

ANN ARBOR AREA COMMUNITY FOUNDATION

First Successful Loan (2015)

- Goal: **enhance the sustainability** of the Ann Arbor Art Center through increased earned income
- A **\$10,000 construction loan** consolidated three projects, accelerating timeline and reducing costs
- **Terms:** One year loan, 1% annual interest rate forgivable if loan was repaid on schedule
- **Source of capital was the same donor-advised fund**, the advisor for which had added \$500K in additional assets dedicated to impact investing



Ann Arbor Area
Community Foundation

BARRY COMMUNITY FOUNDATION

Second Leg of the Journey

- April of 2015 – repayment begins
- Annual investment rate of 3.75% years 3-10
- Income of over 90k, with repayment 171,737.41
- Separate Impact Investing Committee (comprised of representatives of BCF & Barry County Economic Alliance) develop charter & process for application and awards
- Grant to Municipality for feasibility study of water/sewer for expansion project

Impact
Investments

Behind the
Scenes



Barry Community Foundation

BARRY COMMUNITY FOUNDATION

Results of Local Investment



Holiday Inn Express opened for business in August 2013

- 64 rooms
- Indoor swimming pool
- Conference Center
- Employs about 10 people
- Active community supporter



ANN ARBOR AREA COMMUNITY FOUNDATION

Results

- Facility rental revenues increased by 20%
- Loan repaid in a half year
- Second, \$30k loan deployed for facility expansion

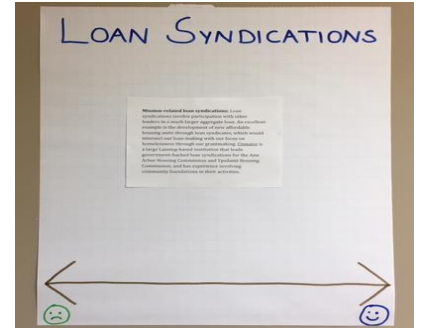


Ann Arbor Area
Community Foundation

ANN ARBOR AREA COMMUNITY FOUNDATION

Resources

- Board exercise
- Loan agreement
- [Case study video](#)



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Donor Advised Funds

- Taxable Distributions
- Private Benefit
- Excess Benefit Transactions
- Excess Business Holdings
- Expenditure Responsibility



Charitable Purposes

- Relief of the poor, distressed, underprivileged
- Advancement of religion
- Advancement of education or science
- Erecting or maintaining public buildings, monuments, or works
- Lessening the burdens of government (but beware)
- Lessening neighborhood tensions
- Promotion of social welfare (beware, especially with economic development)



Sample of Charitability

- Low-interest or interest-free loans to needy students.
- High-risk investments in nonprofit low-income housing projects.
- Low-interest loans to small businesses owned by members of economically disadvantaged groups, where commercial funds at reasonable interest rates are not readily available.



Sample of Charitability

- Investments in businesses in deteriorated urban areas under a plan to improve the economy of the area by providing employment or training for unemployed residents.
- Investments in nonprofit organizations combating community deterioration.
- Purchase of common stock in a corporation whose purpose is to develop a vaccine needed in the developing world, with requirements that the corporation make the vaccine affordable and publish results to the public.



Types of Investments

- *Debt (including convertible debt) or loans*
- *Royalty based financing*
- *Fixed-income securities (bonds)*
- *Guarantees and letters of credit*
- *Deposits*
- *Private equity – directly or into a fund (or fund of funds)*
- *Social Impact Bonds and other Pay for Success Programs*



RESOURCES OF MIE

Mission Investors Exchange - www.missioninvestors.org

Membership network of over 270 foundations

- Database with entries on investments made - can be submitted by all foundations, including non-members
- Institutes, webinars and regional educational gatherings
- Field guide for community foundations and small-staffed field guide
- Short case examples and templates – e.g., sample investment policy statements

OTHER KEY RESOURCES

- US-SIF – listing of socially responsible funds with screens and minimums – www.ussif.org
- The GIIN – reports and impact measurement – www.thegiin.org
- Confluence – advisor guide, working groups, programs – www.confluencephilanthropy.org
- The ImPact – primers for family investors – www.theimpact.org
- Toniic – reports and guides – www.toniic.com

QUESTIONS?





EVALUATE US!

Your feedback is important – our quick online evaluation can be completed in 3 minutes or less!

MARK YOUR CALENDARS & REGISTER TODAY!



**Best Practices for
National Standards**



**Spring Institute on
Impact Investing
with MIE**

THANK YOU!

STAY IN TOUCH WITH CMF

