NORTHERN NEW ENGLAND COMMUNITY FOUNDATION IMPACT INVESTING:

A Rural Community Foundation Case Study

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THE Vermont Community Foundation

NEW HAMPSHIRE CHARITABLE FOUNDATION

Maine Community Foundation

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EXECUTIVE SUMMARY

In summer 2011, the Maine Community Foundation, New Hampshire Charitable Foundation and the Vermont Community Foundation (Northern New England Community Foundations, or NNE CFs) came together to jointly evaluate the potential for expanding impact investing as a program strategy and donor service within their largely rural states and across the three-state region.[1]

The community foundations structured the project in phases with go no-go decision points. Phase I confirmed both donor interest in impact investing and demand for impact capital in a range of sectors that reinforce the community foundations' strategic plans--particularly local job creation and sustainable development. Phase II proceeded on parallel tracks of assisting each community foundation to develop a state-focused impact investing strategy, and assessing the feasibility of regional collaborative activity. This focused on a shared services platform to support the NNE CFs in executing state-focused as well as regional impact investing.

During and following Phase II, each community foundation responded to selected local requests for impact investment, while generally maintaining a low profile with prospective investees until formal impact investing strategies and systems were in place. MaineCF and NHCF are moving forward to formalize those systems, while VCF is building upon its strong, existing Vermont Investments program (a summary of activities across phases appears in Appendix A).

All NNE CFs are encouraged by the interest that their programs are starting to generate, and will research the potential to attract new donors and co-investors interested in impact investing as a tool for improving local quality of life for all. While the NNE CFs remain interested in potential shared services to source needed capacities and longer-term strategic opportunities a regional investment strategy may offer, their in-state strategies and operations are top priorities for now.

The NNE CF's process illustrates that community foundations have different starting points and pathways for building impact investing programs. If engaging in the activity as a program strategy and/or donor service, however, they generally cover four tasks over time: Initial Strategic Planning, Impact Investing Policy Design, Operating Systems Design and Program Management (see Roadmap, Figure 1).

Many of these tasks are similar whether carried out by an urban or rural community foundation. Common to both are the core fiduciary responsibility and related need for investment policy, governance structures, an economically sustainable operating plan,

Rural Community Foundation Impact Investing: National Context

An increasing number of urban and rural community foundations are launching or broadening impact investing strategies, including through donor engagement. This case study focuses on how rural as well as other community foundations can do so, by:

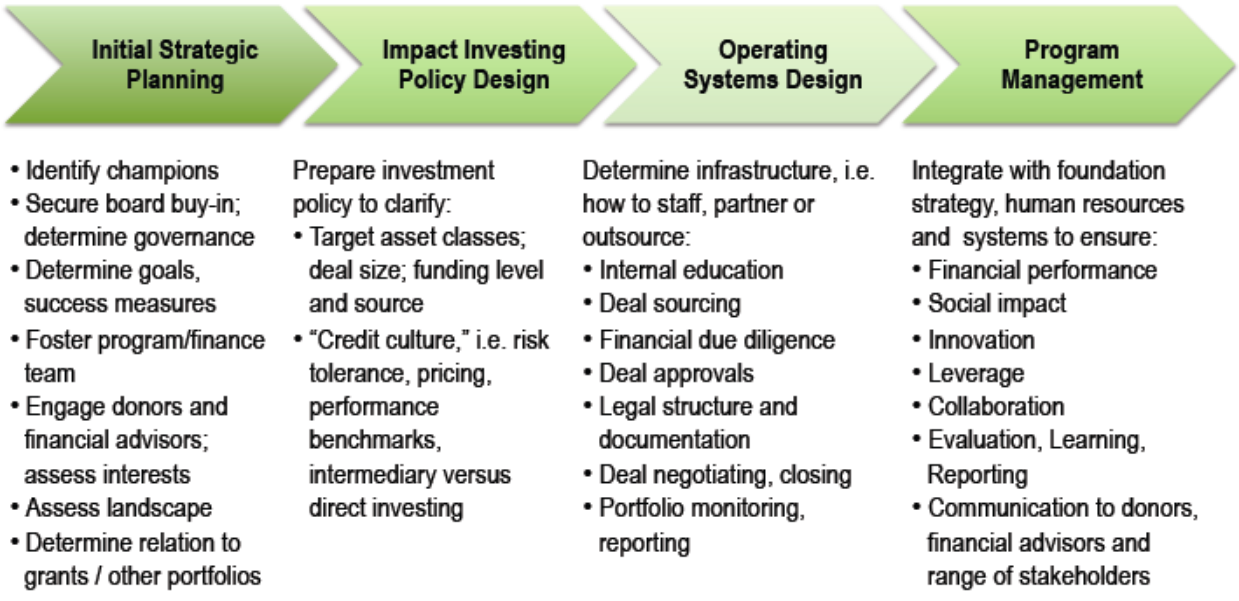
- Chronicling the work of three state-wide Northern New England community foundations serving largely rural areas, from different starting points and with varied goals.
- Offering an impact investing roadmap, with discussion of how the tasks and issues play out for rural institutions.
- Identifying operating issues and options as community foundations launch and/or expand programs.
- Reviewing community foundations' potential to leverage their impact investing strategies, along with regulatory considerations.
- Revealing the potential to enhance impact and efficiency through collaboration.
- Identifying "lessons learned" from the rural community foundations' experiences both individually and as a collaborative.

and integration of any impact investing program with overall foundation strategy.

The need to create an impact investing strategy that responds to local economic conditions is also the same. In urban, rural or reservation communities, impact investing typically targets areas or populations with weak and/or challenged economic conditions, or emerging and innovative sectors such as sustainable agriculture. In either setting, the strategy typically focuses on strengthening local economic sectors, institutions and households to increase opportunities and better connect targeted communities and residents to their larger region.

Rural and urban conditions and impact investing strategy also differ in important ways. While many rural economies are no longer dominated by agriculture, they tend to be natural resource-focused. Rural economies typically cover large areas, often with limited infrastructure (roads, transportation systems, water systems and broadband). This presents challenges for developing vibrant local economies and value chains—defined as relationships between producers, processors, distributers, and both retail and institutional consumers that recirculate dollars to create local wealth while reducing imports and related carbon emissions. A successful rural impact investing strategy will assess and respond to such challenges, while also reinforcing innovative, emerging approaches to local development.

Figure 1. Community Foundation Impact Investing Roadmap



Lessons Learned

The NNE CF's experience to date yields lessons for community and other foundations on both rural impact investing and impact investing program design:

Rural Impact Investing

- Rural communities offer opportunities for impact investing.
- High priorities include environmentally sustainable economic development in natural resource-based sectors such as farming, forestry, fisheries and energy that can generate permanent local jobs.
- Investing to strengthen value chains between producers, processors, distributors and institutional and retail consumers helps to retain wealth in the region while reducing carbon footprints.
- Parallel community development investments in quality affordable housing, education, health, transportation, parks, and arts and culture improve the quality of life in local communities, making them more attractive as places to develop a career and raise a family.
- There is a tension between urban and rural development, even within largely rural states. Economic activity clusters in population centers, while needs are high and customized strategies are needed in more remote areas.
- The large territory covered by many rural community foundations requires investment that can impact both the rural and more densely populated areas with stronger economic performance.
- It is important to work with local and regional community development financial institutions (CDFIs) and other established intermediaries and government agencies to capitalize on and leverage the existing expertise and pools of low-cost, patient capital.

Impact Investing Program Design

- Cultivate champions, who build interest and may significantly back the program with grants or investments.
- Engage donors early in the process, as donors become more interested in impact investing with peer learning. Maintain donor communications and incorporate donor preferences into program design.
- Impact investing pools can offer efficiencies over one-off investments; donors are receptive to pools if the focus meets their interests and they can closely follow the impact.
- Create an internal Impact Investing Committee made up of board members and other interested stakeholders, which helps to move the program forward.
- Undertake a landscape scan of market opportunity covering potential investments and public and private partners to inform the development of an impact investing strategy.
- Leverage the community foundation's stature as a trusted institution within rural communities, which inspires confidence from donors that it can execute a locally-focused impact investing program.
- Anticipate that community foundation donors, board members and leadership will require an impact investing program that incorporates the same level of

fiduciary care as any foundation investment.

- Anticipate that sourcing, structuring and monitoring quality impact investments is a labor intensive process. Achieving financial sustainability for the program may involve charging some administrative fees and/or higher general donor advised fund fees, or raising complementary grant support.

The case study is organized in eight sections:

- Northern New England Community Foundations: Windows on Rural and Place-Based Impact Investing
- Vetting Impact Investing within the Community Foundation
- Approaches to Community Foundation Impact Investing
- Community Foundation Impact Investing Strategic Planning
- Impact Investment Policy
- Operating Systems and Shared Services
- Leveraging the Strategy
- Conclusion and Next Steps

It includes appendices with additional background on the NNE CF project, and resources for rural community foundations and others interested in rural impact investing.

Maine Community Foundation made a loan to Maine Farmland Trust, an award-winning statewide organization that works to protect farmland; support farmers; and advance farming. Structured as a land trust, MFT's is the state's leading force in protecting farmland, often working in partnership with local and regional land trusts. MFT is equally engaged in keeping farming vital. Through FarmLink, MFT places next-generation farmers on land. Through its Buy/Protect/Sell program, MFT helps make farmland more affordable for farmers. And through its Farm Viability projects, MFT helps existing farmers prosper, through both direct assistance and innovative community projects.

I. NORTHERN NEW ENGLAND COMMUNITY FOUNDATIONS: WINDOWS ON RURAL AND PLACE-BASED IMPACT INVESTING

In summer 2011, three rural, statewide community foundations in Northern New England (NNE CFs) came together to explore (1) how each would expand impact investing as a program strategy and donor service; (2) possible synergies and efficiencies they could gain by learning and planning together, and (3) the potential for a collaborative implementation platform.

Defining Terms: Impact Investing and Rural America

Impact Investing: Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return (Global Impact Investing Network). Impact investments can be of any asset class (investment structure, such as debt, equity, deposits or real estate) or expected financial return.

The Northern New England Community Foundations sought to research the opportunities for making below market- or market-rate loans or investments from grant funds or primary pool assets to achieve strategic priorities of the foundations or their donors.

Rural America: Although rural America covers nearly 75 percent of the nation's land area and is home to 51 million people (Carsey Institute 2012), most federal definitions of rural focus on the fact that rural is not urban. The Office of Management and Budget defines rural as any county not included in a Metropolitan Statistical Area (MSA), which it defines as a single city with a population of 50,000 or more, or an urbanized area (as defined by the Bureau of the Census) with a population of at least 50,000 and a total MSA population of at least 100,000.

The Vermont Community Foundation, New Hampshire Charitable Foundation and Maine Community Foundation (collectively NNE CFs) vary in age, asset size and impact investing experience. They share a commitment to using a full range of philanthropic tools to respond to the needs and opportunities of their states, which share a predominantly rural character. They also share an interest in learning from each other's experience and capturing any synergies through joint effort.

Three Rural Statewide Community Foundations

The Vermont Community Foundation (VCF) was created in 1986 and with $173 million in assets, it is one of the nation's most experienced community foundation impact investors. In 2001 VCF's board authorized creating the Vermont Investments program that dedicates 5 percent of all pooled assets to investments in or primarily benefitting the state. Through this program, VCF currently manages a $7.0 million portfolio of investments across asset classes (investment structures), including loans to many of the state's Community Development Financial Institutions (CDFIs, see Appendix F); insured deposits in banks and credit unions with strong community development performance; fixed-income securities (bonds) supporting in-state affordable housing, family economic security and nonprofit organizations; and venture capital funds supporting regional job creation. VCF joined the NNE CFs to explore potential regional impact investing strategies, along with greater donor engagement and refinements to its current impact investing systems and impact reporting.

Place Determines Design

In impact investing as in grantmaking and community development, place determines design. Rural states and communities differ considerably, based upon their natural resources, proximity to large metropolitan areas, history, population, and other factors.

In her article, Community Development in Rural America: Collaborative, Regional, and Comprehensive, Cynthia M. Duncan sets out a typology of three types of rural communities, with their challenges and opportunities. In his article, Why Invest in Rural America, and How?, Karl Stauber similarly notes four types of rural communities, three goals and four approaches to their development. Impact investing can be a critical tool in each setting and approach:

Rural Community Types:

- Urban Periphery—rural areas within a 90-minute commute of urban employment, services, and social opportunities
- Sparsely Populated—areas where the population density is low and often declining and therefore the demand for traditional services, employment, and social opportunities are limited by isolation
- High Amenity—rural areas of significant scenic beauty, cultural opportunities, and attraction to wealthy and retired people
- High Poverty—rural areas characterized by persistent poverty or rapid declines in income.

Successful Rural Public Policy: Societal Benefits

- Survival of the rural middle class
- Reducing concentrated rural poverty
- Sustaining and improving the quality of the natural environment.

Means for Achieving Societal Benefits:

- Increased human capital
- Conservation of the natural environment and culture
- Increased regional competitive investments
- Investments in infrastructure that support the expansion of newer competitive advantage, not the protection of older competitive advantage.

New Hampshire Charitable Foundation (NHCF) was created in 1962 and with over $525 million in assets, has the longest history in impact investing. NHCF carried out donor requested lending as far back as 1971 and also supported the creation of one of nation's pioneering CDFIs in the early 1980s, the New Hampshire Community Loan Fund. NHCF has maintained a large loan to this CDFI for nearly a decade, and continues to manage eight donor-capitalized loan funds of different purposes totaling $800,000. The donor-capitalized funds provide a range of support to the non-profit sector typically as "lenders of last resort." These include The New Hampshire Children's Museum, theaters and other cultural institutions and conservation-based real estate purchases. NHCF also invested in a state-focused venture capital firm and has in its traditional investment portfolio a sustainable timber fund holding. NHCF joined the NNE CFs to explore the potential for regional impact investing strategies; expanding its impact investing program in alignment with its strategic plan; increasing donor engagement; and streamlining the operation of its current donor-capitalized loan funds.

Maine Community Foundation (MaineCF) was created in 1983 and has grown to over $300 million in assets. It has made a couple of loans to local intermediaries beginning in the 1980s. The community foundation renewed activity in recent years with a $1 million loan to Maine Farmland Trust (MFT) that is capitalized by a combination of donor and discretionary funds. Maine has significant interest in impact investing among some of its board members and donors. It joined the NNE CFs to explore the potential for regional impact investing strategies, and to build a robust impact investing program aligned with its strategic plan and featuring donor engagement.

Early in the collaborative, the three community foundations identified goals for working together: (1) to accelerate and increase their learning; (2) to identify and take advantage of potential efficiencies such as material development, joint training and shared staffing; and (3) to explore the possibility of collaborative investing in regional issues, thereby enlarging and diversifying their respective pipelines and impact while mitigating risks.

The primary concerns of the group included: (1) the time it would take to participate, (2) the challenge of managing shared expectations, and – should they decide to act together – (3) the allocation of responsibilities. They identified 10 guiding principles for the collaborative, which appear in Appendix B.

The Changing Demographic Profile of Rural America

While the population in all three Northern New England states increased between 2000 and 2010, demographics are shifting toward an older and more diverse population. Staff at Vermont's Opportunities Credit Union (a CDFI) speak French, Bosnian, Spanish, Portuguese and Arabic in order to serve populations resettling under the Vermont Refugee Resettlement Program. The region also remains home to Native American tribes and peoples, some of whom are served by the northern Maine CDFI, Four Directions Community Development Financial Institution.

Losses and shifts in population are affecting many other rural American communities. The combination of lower birth rates, out-migration of youth and in-migration of ethnic minority populations is creating communities whose aging populations, new communities of color and concentrations of children of color call for changes in economic and human services planning. Innovative CDFIs such as the Latino Community Credit Union in North Carolina are modeling impact investing strategies that are serving well in the changing landscape.

Impact Investing: A Trend Among Community Foundations Nationally

The NNE CFs' interest in expanding their use of impact investing reflects growing interest by community foundations nationally. While some of the issues facing rural community foundations are unique, many are shared by urban as well as rural or reservation institutions. Against shrinking public sector resources, all face weakened markets; high unemployment; inadequate supply of quality, affordable housing; and increased needs for a range of human services. At the same, many are seeing increased interest by entrepreneurs and donors in focusing their time, talent and treasure in strengthening the communities they call home.

These stakeholders are reinventing local economies around the principal of value chains that build and retain local wealth between local businesses, nonprofit organizations, capital sources and residents. Where possible, businesses are also selling their quality, locally produced goods within their regions, displacing large, carbon-intensive transport of goods with local wealth-enhancing, regional rural-to-urban ties.

Community Foundation Impact Investing: Focusing Many on Place

Community foundation impact investing varies from private foundation practice, with rural institutions no exception:

- As mostly place-based institutions, community foundations typically make impact investments to benefit their local community. In the case of small or rural areas, this can limit qualified deal flow.

- The composition of community foundation assets from numerous donors, nonprofit agencies and others confers a strong sense of fiduciary responsibility and a broad mission of strengthening local institutions and

opportunities for all. The impact investing strategy must satisfy the risk management concerns of all stakeholders while focusing on program areas most likely to yield qualified investment opportunities.

- Depending upon the level of donor advised funds (DAF), community foundations may have limited discretionary dollars for impact investing.

- Community foundations enjoy the unique potential advantage of directly engaging their donors in impact investing. This can expand the resources for financing qualified projects, add a distinctive and innovative element to the community foundation – donor relationship and position the community foundation as a leader in mobilizing financial resources for local opportunities and needs.

- Community foundations seek to grow the availability of capital for social good, and impact investing may attract a "new" type of donor/investor who questions grant strategies, yet is willing to commit social, intellectual and financial capital to solve community challenges.

Rural Community Foundations and Impact Investing

Rural and statewide community foundations such as the NNE CFs face additional opportunities and challenges, including:

- While they may cover large geographic areas, rural states often have a relatively small and familiar set of community and government leaders. This makes it possible to form strong coalitions and public-private partnerships around priority interests.

- Over recent decades, many statewide community foundations have created affiliates and/or local funds, allowing local knowledge, relationships and responsive philanthropy throughout the state.

- Statewide and rural community foundations often serve different kinds of market environments—from major cities to sparsely populated counties. Within these communities, demographics may be changing in significant ways (see sidebar).[2]

- Boom and bust cycles of natural resource extraction may have depleted environmental capital for farming, forestry, fishing or mining. Often a patient capital source combined with technical assistance, impact investing can help to restore working landscapes, local economies and cultural traditions. Longer term, it can support community resiliency—the ability to both respond to shocks and engage in the ongoing innovation necessary to adapt to macroeconomic and demographic shifts.

Within typologies of rural community types (see sidebar)[3] each NNE CF is High Amenity. Each attracts wealthy people from throughout the Northeast for scenic beauty, cultural opportunities including outstanding metropolitan areas and universities and year around recreation. Each also already has an existing base of impact investors and financial intermediaries.

Despite the amenities and assets, these states face challenges common to most of the country's rural areas:

- It can be difficult to attract and/or retain human capital to lead and sustain local transformation, a constraint affecting both community development organizations[4] and entrepreneurial growth firms. Existing development leaders and organizations are stretched to meet multiple local needs, while entrepreneurial firms compete for talent with densely populated areas offering

professional and quality of life advantages.

- Each has suffered economically and environmentally as a result of past resource extraction-driven economies. Their 2011 poverty levels increased since 2010, to 13.0, 7.1 and 11.2 percent for Maine, New Hampshire and Vermont, respectively.[5]

- The more remote areas suffer from the highest poverty rates and greatest shortages of health and other services.

- Unemployment, while lower than many places in the U.S., remains a problem.

- Cold winters bring high heating expense, making housing affordability an issue for many. When a breadwinner needs to drive a long distance to work, the housing plus transportation cost becomes more burdensome.

- Homelessness occurs but may be "invisible," as affected individuals and families live with other family or in cars. As in urban areas, those at risk of homelessness often face behavioral health issues.

- Throughout the region, there is pressure on land tenure. The attractiveness of Northern New England, and its proximity to large urban areas, fuels demand for land that can be developed. A proactive sustainable development strategy is required to secure land as the working farms, forests and fisheries needed to provide predictable jobs and income to local families and beautiful scenery for tourists and visitors.

- With escalating land prices, similar strategies are needed to preserve the region's affordable housing, including rental, manufactured and other types.

For the NNE CFs and the communities they serve, the meaning and value of rural identity extends far beyond the "not urban," default of several federal agencies (see Defining Terms sidebar). Instead, it represents a stewardship calling for preserving farm, forest, fish, energy, and tourism assets along with the traditions, skills and relationships that developed in relation to them. Impact investing by community foundations is among the tools for renewing rural areas with working landscapes, value chains and vibrant towns. Innovation and the flexibility to adapt to changing market opportunities and demographics are additional resources that can help to create the quality of life needed to attract and hold today's mix of diverse businesses, entrepreneurs, workers and families.

COMMUNITY LOAN FUND

The New Hampshire Charitable Foundation helped to incubate and capitalize the New Hampshire Community Loan Fund, whose Child Care Facilities program works to increase the number and the quality of child care and early education opportunities across New Hampshire.

II. VETTING IMPACT INVESTING WITHIN THE COMMUNITY FOUNDATION

Among the key tasks for any community foundation planning an impact investing strategy is vetting the concept with stakeholders, including the institution's board, staff, donors and strategic partners. Community foundations typically undertake this task through a series of steps (see Initial Strategic Planning in the Roadmap, Figure 1):

In the Lead for Impact Investing

VCF's board of directors led the move for that foundation's 2001 path breaking creation of Vermont Investments, a strategy that invests five percent of all pooled assets in holdings that are based and/or focused in Vermont (see Appendix G, VCF's Investment Policy).

Community foundations in both Maine and New Hampshire created special Impact Investment Committees to guide their development of investment strategy, policy and operating plans (a step that VCF also took in a recent process of refining its approach).

- **Identify champions.** Given a community foundation's leadership in bringing together donor, nonprofit and community interests, it is important to identify trusted board members, staff and partners to both set out the vision and inspire confidence in the execution for a new impact investing program.

  Generally organized as an Impact Investment Committee, such a group typically includes one or more members of the community foundation's board investment committee. However, it is separate from that body and reports directly to the community foundation's board of directors. The Impact Investing Committee typically includes volunteers with both professional investing experience and impact investing interest, who are staffed by an internal team. It often becomes the governing body for the program, once launched. As such, it meets regularly to evaluate and decide upon investment requests, oversee impact investing portfolio performance and review strategy.

- **Build the internal team**. One of impact investing's benefits is the increased interaction it sparks between members of the community foundation's finance, program and donor services areas. Particularly if donor engagement is planned, the impact investing strategy will consider questions to which each area brings unique expertise:

  - *Finance & Investments*: What dollar volume, structure or type of impact investing to propose? What risk tolerance, expected financial return and funding sources? What liquidity planning is needed (i.e. how can the program always maintain some cash on hand for new investments and/or donor redemptions). What loss protection mechanisms are needed? How can the program be financially sustainable? What fee, other compensation structure or resource generation strategy is needed?

  - *Program*: What program areas can offer investing opportunities that demonstrate enhanced philanthropic results to the foundation, its donors and other partners? What sectors can benefit from capital investment to drive needed changes? What nonprofit and other organizations have the financial and managerial strength to take on impact investments? What organizations can partner with the community foundation to build market interest and capacity for the program, as well as to track and report on social impact?

- *Donor Services:* What issues are most compelling for donors? Would donors consider making impact investment in these areas? Would they be willing to pool their impact investing, creating a structure that is easier for the community foundation to manage than a series of one-off, donor-driven investments? Are there donors who might step forward as champions of an impact investing initiative? Are there financial advisors who would refer clients and/or partner with the community foundation in building interest in the impact investing program? What kinds of fees might donors pay for participating?

By working together in the design phase, a community foundation's finance, program and donor services areas can function well as an impact investing team by the time of program launch.

- **Craft a Communications Strategy:** What is the best way to communicate to a wide variety of constituents the promise and potential of impact investing?

- **Create Community Foundation Buy-In**. There may be inertia if not pushback for taking on impact investing--from all corners and viewpoints. Initial board and staff views may range from seeing impact investing as a new tool, paradigm shift, risky practice or simply additional work on an already full plate. Encouraging input, and planning a responsive strategy and operation, go a long way to building buy-in for the program.

- **Understand the Fiduciary Issues.** Among the potential concerns at the board level is that impact investing may be inconsistent with fiduciary responsibility. Impact investments may, after all, intentionally accept lower expected financial return and/or higher risk than would a conventional investor for a similar investment.

  While this concept gives pause, long-term practitioners conclude that the practice in and of itself need not impair financial performance. Rather, as with conventional investments, financial returns may deviate from expectations as a result of the asset manager or other factors. As an example, VCF continues to deliver financial performance in or near the top 10 percent of community foundations in its size cohort, even though five percent of its pooled assets are dedicated to a mix of Vermont investments with modest financial return expectations.[6]

- **Understand the Regulatory Context**. Given the significant responsibility at community foundations for donor and agency funds, the NNE CFs shared a commitment to providing comfort to board members and stakeholders that all aspects of any impact investing program would comply with applicable regulations.

  The regulations that relate to impact investing are the same for rural or urban community foundations. There are important differences, however, in such regulations between community and private foundations (see Appendix E for a side by side comparison).

The Tax Code of 1969 set out regulations for program-related investments (PRIs) by private foundations. PRIs are defined as investments for which: 1) the primary purpose is charitable; 2) no significant purpose is the generation of income or the appreciation of capital; and 3) no purpose is lobbying or other political activities that are prohibited for nonprofit organizations.

The tax code does not define PRI for community foundations, though community foundations have for decades made similar

investments, and the Form 990 provides a place for community foundations to report on them. Impact investments with an expected market-rate of return, variously called "mission-related investments"—MRIs --or double or triple bottom line investments (for their social and/or environmental as well as financial expected returns) have no special treatment under the regulations for either private or community foundations. They are subject to the same regulations and fiduciary care as any other endowment asset.

Vetting Impact Investing within the Community Foundation

At MaineCF, Vice Presidents Peter Taylor (Program) and Jim Geary (CFO & Director of Investments) spent many hours jointly designing, executing and managing a loan to Maine Farmland Trust. In the course of making this investment (which combined discretionary and donor funds), they exchanged many ideas about how an impact investing program could be expanded and opened for further donor participation.

Early in the NNE CF project, they expanded the team to include Jen Southard, Director of Philanthropic Services. Jen brought important insights into donor preferences and the need for education among all stakeholders on emerging social enterprise models. Education would be particularly needed to explain the proposed strategy in which both for-profit and nonprofit organizations would be eligible for impact investments, provided their services would advance the community foundation's mission and repayment expectations.

As a smaller foundation, VCF officers often wear multiple hats. CFO Debbie Rooney had a major hand in the early design of VCF's Vermont Investments and remains engaged in cultivating, structuring and managing investments under this innovative program. As the program has matured and local interest in impact investing builds, however, VCF is refining its policies and systems. It is also more intentionally building a cross-area team including Tom Roberts, Senior Philanthropic Advisor and Jen Peterson, Vice President for Program and Grants.

Community foundations typically adapt the applicable regulatory guidance for private foundation program-related investing, although they are not subject to identical provisions.[7]

There are further regulatory considerations for community foundations as they consider engaging donors, nonprofit agencies and potential co-investors in impact investing strategies. These are discussed in Section VII, Leveraging the Strategy.

Rural Community Foundation Considerations in Impact Investing

Are there ways that vetting an impact investing strategy might differ between an urban and rural setting?

- The community foundation in both settings often starts off being extremely well trusted, so the stakes are high for preserving "brand" and managing reputation risk. The importance of this matter may be heightened in a rural setting due to the perception that "everybody knows everybody."

- There may be a smaller pool of leaders from which to choose for guiding impact investing strategy and overseeing the program once launched. For this reason, it may be useful to involve trusted outside members who bring experience from comparable settings.

- Similarly, because people tend to know each other, a rural community foundation's impact investing planning may create expectations on where the foundation will invest and/or with whom it will partner. Before engaging local partners in the market research for an impact investing program, it is useful to think ahead on how to manage expectations and achieve win-wins.

- In communities where community development finance intermediaries such as CDFIs already exist, competitive issues may be sensitive. The community foundation will again need to define its role in a way that generates win-wins for valued partner institutions in the region.

The NNE CFs faced all these potential challenges. Among their ways of managing them have been to:

- Speak candidly with local organizations about the fact that they were beginning an exploration of whether and how to expand their impact investing, which would move through several stages before becoming operational.

- Explain that this process would be going on parallel to the community foundations' strategic planning process and would be aligned with priorities there.

- Provide informal updates, which signal that the strategy is proceeding but will have mission/program and financial criteria that will necessarily limit eligibility.

- Engage consultants to perform the in-depth market research, which the consultants accurately describe as being on behalf of a regional consortium of foundations.

- Encourage those performing market research and guiding the formulation of investment criteria to develop a pipeline of example deals. This can stimulate thought within the foundation about which of its grantees and partners may be eligible for investment, and what other types of investees the community foundation might look for to fulfill mission objectives.

- Arrange for the availability of capacity building services—for intermediaries that may be partners in the future and for other potential investees.

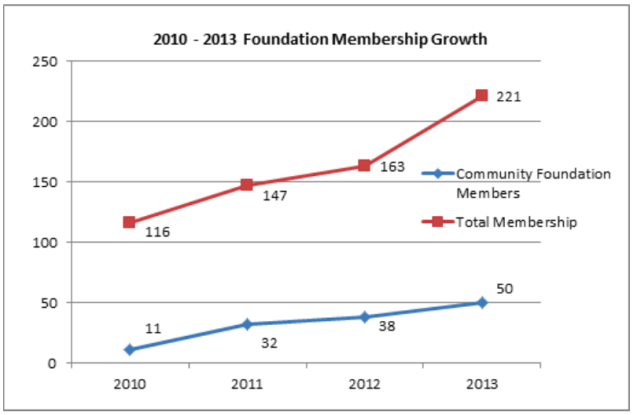
III. APPROACHES TO COMMUNITY FOUNDATION IMPACT INVESTING

While a few community foundations have been making impact investments for decades, many more are just taking up the practice (Figures 2 - 4). Their process illustrates that there are many ways to begin impact investing, and community foundations often build, diversify and blend strategies over time. Key variables include whether a community foundation:

- Initiates impact investing internally or in response to donor requests
- Funds impact investing with discretionary and/or donor funds
- Seeks market-rate or concessionary expected financial returns
- Invests in a single asset class or a range of asset classes (i.e., debt, equity, deposits, etc.)
- Invests directly and/or via intermediaries of funds.
- Invests only in its local community, or in a broader geography
- Focuses on a specific issue, set of issues or the broad spectrum of community needs
- Offers donor engagement in impact investing via an allocation made from all pooled assets (low engagement and low administrative cost), participation in an impact investing fund (medium engagement and cost) or participation in customized and/or deal-by-deal transactions (high engagement and administrative cost; Table 1).

Experience suggests that a community foundation's top priority in impact investing is a well-managed program that is aligned with the broader priorities of the institution. It is less important that the strategy rapidly--or in some cases ever--incorporate all approaches. Moreover, it is important that the selected approaches reflect the context – the availability of donors and co-investors, compelling needs and gaps – and the capacity of the community foundation to implement.

Figure 2. Community Foundation Membership in Mission Investors Exchange as a Portion of Total Membership



Community foundations appear to be taking up the practice of impact investing at a higher rate than foundations a whole. The nation's approximately 750 community foundations represent some one-tenth of one percent of its approximately 75,000 foundations. Yet community foundations represent 23 percent of membership in the Mission Investors Exchange, a U.S.-based trade association of foundations that are using and/or exploring the use of impact investing (Mission Investors Exchange 2013).

Figure 3. Impact Investing Models for Community Foundations

Factor			
Lead	• Foundation • *Cleveland*	• Donors • *Orange County*	• Both • *Orange County*
Source of Funds	• Unrestricted funds • *California (CCF)*	• Donor Advised Funds • *Kansas City*	• Both • *Marin*
Expected Return	• Concessionary • *Boston*	• Market-Rate • *Atlanta*	• Both • *Vermont*
Asset Classes	• Selected • *Marin*	• Traditional Allocation • *Vermont*	• Both • NA
Execution	• Direct • *Baton Rouge*	• Intermediaries/Funds • *San Francisco*	• Both • *Kalamazoo*
Geography	• Local • *Barberton*	• Global • *Seattle*	• Both • *Seattle*

Community foundations structure their impact investing strategies in any number of ways. Many begin with one approach—such as making loans to local intermediaries with unrestricted funds—and add additional approaches over time.

Figure 4. Community Foundation Impact Investing – Selected Institutions by Donor Engagement and Expected Financial Return

Community foundation impact investing practice reflects varying levels of donor engagement versus deployment of discretionary funds, and varying levels of focus on market-rate versus below market-rate, more programmatically-driven investment.

Table 1. Community Foundation Donor Engagement Structuring Options

Option	Description	Donor Engagement	Comments
Foundation Pool **Example:** Vermont Community Foundation	Foundation dedicates an allocation from all its fund types, including donor advised funds, to create an impact investing pool	**Low** Foundation places a portion of donor funds that are comingled with other funds in impact investments	Foundation bears the cost of impact investing strategy, which varies according to the range of targeted asset classes, return levels and other factors. There is no incremental cost to accommodate donor interests, but also minimal leveraging of impact investing as a means to deepen donor engagement. Vermont expects to add a donor engagement component.
Pooled Funds with Donor Engagement **Examples:** Maine Community Foundation, Marin Community Foundation, Minneapolis Foundation	Foundation creates impact investing pool(s) in which it invites donors to invest a portion of their donor advised fund.	**Medium** Donor commits a portion of a donor advised fund to impact investing but does not control the selection of specific investments	Balances the efficiency and diversification benefits of a pooled impact investing strategy with a level of donor engagement. Likely requires "high touch" communications, impact reporting and a possible donor impact investing learning circle to ensure growth and continuity of donor engagement.
Case-by-Case **Examples:** Greater Cincinnati Foundation, Orange County Community Foundation (both also lend CF discretionary funds)	Foundation offers donors the option to participate in individual impact investments on a case-by-case basis.	**High** Donor commits a portion a donor advised fund to specific investments but has less risk diversification and learning from participating in one or more impact investment pools	Requires foundation to recruit investors for deals on a case-by-case basis. High administrative cost for the foundation and lower diversification of risk for the donor.

IV. COMMUNITY FOUNDATION IMPACT INVESTING STRATEGIC PLANNING

Having created buy-in at their institutions to proceed with an impact investing strategic planning process, and reviewed approaches by other community foundations, the NNE CFs looked to anchor their strategy in an assessment of donor interest. The goal was to filter rather than bypass the equally important findings that would come from a later market needs assessment. Adapting the Roadmap framework, they:

- Assessed donor interest in and design preferences for an impact investing program.
- Assessed the regional impact investing landscape in the context of priority donor interests. This included assessing the level of qualified demand for capital, the strength of local intermediaries and capacity building partners, and the potential to leverage community foundation investments with capital from conventional actors such as banks fulfilling the Community Reinvestment Act (see Appendix F).
- Formulated a preliminary impact investing strategy.
- Aligned the strategy with institutional strategic planning processes in process, thereby establishing relationships between impact investing, grantmaking and other activities of the foundation.
- Made a preliminary assessment of risk factors and mitigants.
- Determined next steps.

MaineCF and NHCF were engaged in institution-wide strategic planning processes that addressed whether and how to incorporate impact investing with donor engagement. The desire to synchronize impact investing planning with strategic planning slowed the pace of implementation while allowing important alignment with new multi-year plans.

VCF's goals in this process were quite specific, since it already had a well-established impact investing portfolio: (1) determine whether to proactively engage donors as co-investors in impact investing and (2) develop a regional platform that expanded their potential pipeline of mission-aligned investment. The differing agendas and positions on the planning roadmap among the NNE CFs made it challenging for VCF to fully take advantage of the collaborative process, although the foundation continued to cultivate investments linked to its in-state priorities of developing local food systems and responding to critical needs such as affordable housing. VCF continues to look at ways to engage donors in impact investing, including field of interest impact investment strategies that reflect donor interests.

Following is a chronicle of how the Roadmap elements built upon each other.

Donor Demand for Impact Investing

The donor focus groups within each state identified a group of donors who were receptive to using modest amounts of funds to test how impact investing could strengthen the community foundation's response to local opportunities and challenges (focus group questions appear in Appendix C):

- Donors were intrigued by the idea of using their philanthropic "principal" within DAFs and community foundations as recyclable resources for impact investing.
- Their interest in impact investing typically increased with education on the topic. In the course of each 90 minute focus group, many, if not most,

participants who had known little about impact investing became fascinated with its potential and eager to learn more.

- Across the states, donor priorities included: create local jobs; expand access to capital for well-managed local nonprofit organizations and businesses; and conserve the environment. While most donors had a strong draw to local investing, a number were intrigued by the opportunity to work regionally.

- They expressed interest in impact investing strategies that both drive direct social and/or environmental impact and leverage capital from banks and other conventional investors.

Testing Impact Investing with Traditional Financial Advisors

Through individual interviews and participation in focus groups, financial advisors provided the following perspectives:

- In general, traditional financial advisors need more education about impact investing. They would like specific examples to better understand the opportunities for their donors.
- They are much more interested in market-rate investments than concessionary ones.
- Some financial advisors expressed concern about the donor advised management fees charged by the community foundation.
- Double and triple bottom line advisors say that interest in impact investing among clients is high and "our challenge is keeping up with it."

From past work with professional advisors, experience teaches that if client/donor interest can be demonstrated, advisors will follow their clients and become increasingly conversant and eventually enthusiastic about impact investing, its tools, and its goals. But community foundations are advised to educate advisors and "sell" the concept.

- Both donors and foundation leaders required strategies that mitigate the risks of impact investing through rigorous due diligence and monitoring. This requirement signaled a need for a similar degree of professional management for impact investments as for any other community foundation-managed financial assets.

- Financial advisors (who participated in one focus group and several individual interviews) often need particular cultivation. While awareness of impact investing among these partners is increasing, many remain unfamiliar, as well as skeptical about investment strategies that might intentionally accept a below market-rate expected return (see sidebar).

Assessing Underserved Markets

Underserved markets—whether urban or rural—are places or sectors where the perceived risks and/or transaction costs of providing financing fall outside the risk-return appetite of conventional capital sources (Appendix F). Impact investors perform market assessment or landscape scans to understand whether and how local capital markets are functioning, including where the gaps, emerging opportunities and related risks may lie. Tips and tools for assessing the potential and risks include:

- Distinguish "qualified demand for capital" from community need. Qualifying investments will support a:

    - **Social thesis** that describes mission fit, including tangible (measurable) ways that the investment advances the community foundation's mission and program goals.

    - **Investment thesis** that describes how the investment will repay, generally with some financial return or yield. Repayment can come from earned income; reliably

pledged grants and/or refinancing; savings (as might come from energy efficiency improvements and/or co-location); or appreciation in assets that can be sold to generate cash (such as real estate and/or a business or portion of a business).

- Assess both investment opportunities and the "ecosystem" of support for investment prospects. Potential investees in underserved markets generally require non-financial capacity building in order to understand how they may benefit from, qualify for and repay impact investment.

Unlocking Latent Market Potential: Patient Capital and Strong Partners

In underserved markets, and in emerging sectors with potential social benefits such as sustainable agriculture, the transaction sizes tend to be small and the process of deal sourcing and structuring labor intensive.

Patient capital from impact investors, combined with grants, technical assistance and other supports from a range of public and private partners, are needed to unleash the latent potential in these markets.

Local intermediaries such as CDFIs often play a crucial role in cultivating latent demand and providing the technical assistance that less experienced organizations may need to qualify for investment. For this reason, many community and other foundations channel their impact investing through intermediaries.

Fortunately, there are tested approaches for community foundations serving areas that may lack specialized intermediaries. An increasing number of CDFIs operate on a regional or national basis and may be happy to partner with rural communities. In addition, the community foundation may be able to provide guarantees or other support to encourage community lending by local banks, credit unions or public sector financing agencies.

- Bear in mind the full range of resources that can be engaged for regional development strategy. As described by The Wealth Creation in Rural Communities project of the Ford Foundation, this includes a region's financial, natural, built, individual, intellectual, social, and political capital (see Seven Forms of Wealth sidebar).[8]

- Understand risk management as critical to success. The goal is to match investment strategies and vehicles to the region's adaptive and growth opportunities, rather than funding activities that are low value and/or unsustainable. With a strong risk management orientation, community foundations can increasingly mobilize their own, donor, agency, and partner capital behind regional impact investing strategies in ways that are consistent with their obligations as fiduciaries.

Opportunities and Challenges in Northern New England

Rural communities offer distinct opportunities and challenges for any impact investment strategy, as they do for grantmaking strategies. Opportunities and advantages in Northern New England include:

- Productive natural capital (working landscapes, forests, waterfronts and tourist areas).

- Individual, intellectual and political capital (skills, entrepreneurialism, state policies favorable to economic and community development, as well as federal rural policies).

- Financial capital and acumen in engaged CDFIs, regionally focused venture funds, community banks and individual impact investors.

Seven Forms of Wealth

The Ford Foundation's Wealth Creation in Rural Communities project focuses on seven forms of wealth that can be leveraged in a community foundation impact investing strategy:

1. **Financial capital** includes bank accounts, equity investments, and bonds. Any income stream flowing through a community is a form of financial capital. The interest that rural households spend on credit card payments, for example, can become a community asset when a community-owned bank controls it.
2. **Natural capital** includes forests, fish, water, and the other ecological resources in which rural communities are rich.
3. **Social capital** is the stock of trust, relationships, and networks that support a healthy community. These can become a source of wealth when, for example, social networks allow rural residents to share ideas on organic farming, wind leases, or local investing opportunities.
4. **Individual capital** is the stock of skills and the physical and mental capabilities of people in a region. It includes human health, technical skills, and the entrepreneurial ability to start new businesses.
5. **Built capital** includes wind turbines, energy-efficient homes, and other forms of infrastructure that represent community wealth.
6. **Intellectual capital** is the stock of knowledge and innovation in a region, embodied not in individual minds — as individual capital is — but in the enduring intellectual products those minds have created, such as inventions, published writings, or new investing vehicles.
7. **Political capital** is the stock of power and goodwill held by individuals or groups that can be spent or shared to achieve desired ends. Earnings from investments in political capital include increased influence in decision-making and increased control over other forms of capital. (Kelly and Norwood 2010)

Challenges that affect Northern New England include:

- Limited population (the U.S. census reported 2009 state populations of approximately 1.3 million in each of Maine and New Hampshire, and 650,000 in Vermont).
- Geographic dispersion of human and built capital (population and development), which contribute to limited deal flow and clusters of activity and impact.
- Limited economic opportunity and amenities typically found in more urban or densely populated areas, making it difficult to attract businesses or a highly skilled workforce. Successful companies that are bought out may leave the area, taking jobs.
- Sectoral and geographic "silos" of activity. For example, farm, food, fish and forest sectors may all be evolving sustainable practices, but their strategies may not be coordinated. Similarly, community banks and CDFIs may be interested in regional development, but they typically focus within state or smaller regions.
- Historical dependence upon extractive business models. These exported raw materials and forfeited the economic benefit, infrastructure and skills development of value added processing and local retailing.
- Gaps in availability of capital by stage, type of investment (debt, equity, quasi-equity), industry, and geography have increased in recent years. One example is the retreat of commercial banks from most non-secured small business lending, limiting access to growth capital for local job creation.

These factors inform both the need and parameters for a Northern New England impact investing strategy. Implications include:

- The best sources for long-term job and wealth creation for communities may be

locally-based firms seeking incremental growth with existing owners (versus the conventional model of exponential growth, exit to public markets and frequent loss of local jobs).

- Risk-adjusted return expectations on capital to fuel such sustainable job creation may not meet commercial criteria.

- There is a significant need for regional value chain development, if the vision for greater regional value-addition, wealth creation and sustainability is to be realized.

- Such a vision requires and provides opportunity for regionally-focused businesses that make up sectoral value chains.

- Given that natural resource-based economics are often cyclical and local and regional value chains are in an early stage of development, specialized, flexible financing is needed.

- Parallel investments that improve the quality of life and services in local communities can increase the odds of attracting and retaining the needed skilled workforce. Such investments also respond to critical local needs, including affordable housing; senior housing; quality, integrative health care (including behavioral, mental and dental health); quality education and childcare; and arts, culture and recreational organizations.

- There is a tension between urban and rural development, even within largely rural Northern New England states. Economic activity clusters in population centers, but there are forces in each state including the community foundations that defend the interests of the much larger footprint of remote and challenged areas.

Translating a Landscape Scan to an Investment Strategy

The community foundation can bring equity and sustainability lenses to the landscape scan questions to probe whether access to capital and capacity building services is equitable, and whether capital is allocated in ways that strengthen or undermine the long-term viability of community residents, institutions, traditions and the natural resources upon which these depend.

Following are key findings from the NNE CFs landscape scan that was carried out in all three states (landscape scan interview questions appear in Appendix D).

Baseline Assessment of Impact Investing Activity

Northern New England has been the seat of important impact investing initiatives going back to the 1970s. As a result, there are impact investors, intermediaries, funds, supportive government agencies, and technical assistance providers active within each state, some of whom operate throughout the region:

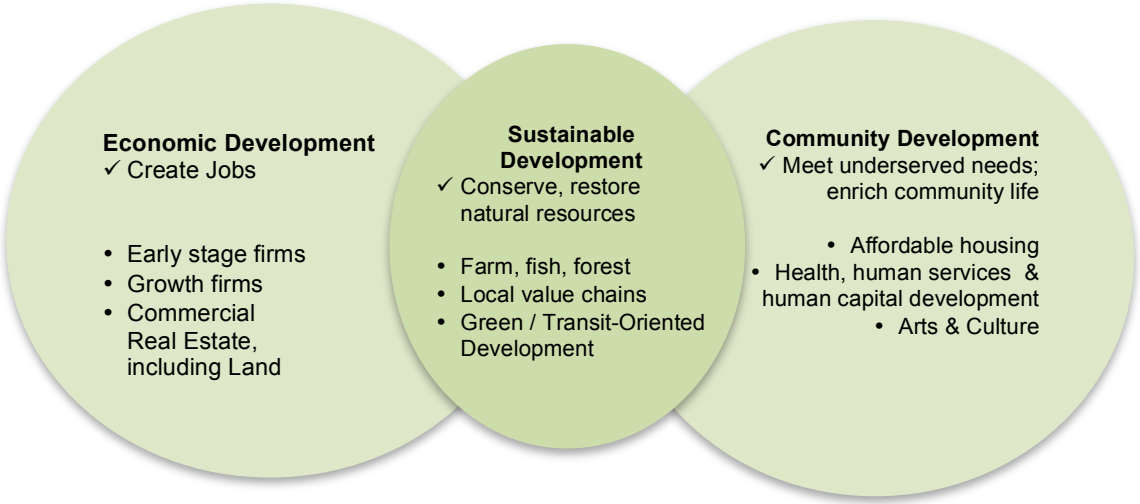
- Regional impact investments fall in three broad sectors, each of which delivers targeted social and/or environmental impact (Figure 5):

    - **Economic Development**—Early and growth stage businesses (including farms), and larger businesses such as factories and working forests, that create or retain jobs.

    - **Community Development**—Nonprofit and other organizations that meet basic needs such as affordable housing and health care, or provide a range of cultural and other services that enrich community life for all.

- **Sustainable development**—An overlay to economic and community development investments that conserve and restore natural resources. This includes developing local or regional value chains between producers, processors, distributers, and retailers that recirculate dollars to create local wealth while reducing imports and related carbon emissions.

Figure 5. Northern New England Impact Investing Sectors



- As of 2010, an estimated $1.9 billion in impact investment was made in the region each year from private, public and nonprofit sources, including foundations:
  - The 2010 estimated breakdown by state included: Maine, $934 million; New Hampshire, $652 million and Vermont, $353 million. The variation between states is largely influenced by the volume of transactions using the federal New Markets Tax Credit program (NMTC), which offers taxable investors a tax credit of 39 percent over seven years for providing flexible financing to projects located in low-income communities. Typically, NMTC supports large projects involving some form of commercial real estate, such as factories, working forests, or health care institutions. Estimated 2010 NMTC transactions for each state were $401 million (43 percent of total) in Maine; $245 million (38 percent) in New Hampshire; and $93 million (26 percent) in Vermont.
  - Other impact investments in each state supported small business, affordable housing, nonprofit organizations, and smaller sustainable real estate transactions such as local farms.
  - Banks were the largest source of impact investments, mostly through their community development lending that fulfills obligations under the federal Community Reinvestment Act.
  - Bank lending depended upon CDFIs and federal and state agencies, which provide investable opportunities, credit enhancement (protection against loss), and incentives such as the NMTC and

similar Historic and Low Income Housing and Historic Tax Credit programs.

- Despite the existing resources, gaps in the availability of capital remained and generally widened in recent years:
    - The economic downturn caused banks to consolidate and tighten credit criteria, resulting in fewer local decision-makers and less flexible financing for small business and affordable housing.
    - Angel investing resources were depressed, meaning less "risk capital" to launch and grow job-creating businesses.

Demand for Capital

Assessments of the demand for impact investing capital examined both current and latent demand. Latent demand refers to requests for financing that would likely develop if certain loan or investment products that safely meet local needs were available.[9] The emphasis on safety is important. In contrast to the predatory lending products that plague many rural communities of low-income and/or color, any proposed impact investing products and/or services should contribute to equitable and sustainable local wealth accumulation (ideally also introducing competition for predatory or environmentally harmful credit products that contribute to their eventual demise).

Taking both current and latent demand into account, the assessment suggested that the three-state region could absorb significant additional impact investments across the range of economic and community development opportunities. Specific opportunities included:

- **Economic Development**
    - *Small and Growth Businesses*. Equity and debt for seed and initial growth stage small businesses, including value added processors and distributors needed for value chains, ranging from meat processing facilities and fresh blueberry or seafood food products processors to transporters of locally produced products within regional markets.
    - *Fresh Food Markets*. Although the three-state region abounds in agricultural production, local communities often lack markets that sell fresh produce and other nutritious foods.
    - *Energy, Technology and Biomedical Innovation*. While the pipeline of investable opportunities is modest at any given time, there are increasing efforts to stimulate regional firms and job creation, as in Native Energy, a provider of carbon offsets, renewable energy credits, and carbon tracking.
- **Community Development**. These opportunities meet local needs while also creating local jobs:
    - *Affordable Housing*. There are long-standing needs for affordable housing finance, including for the elderly and disabled. One expert cited the potential loss of 20,000 units of affordable rental housing in a single state due to "expiring use" of existing subsidies. Such units need substantial amounts of flexible acquisition-rehab financing, as do the homeownership opportunities in manufactured housing parks. The foreclosure crisis has created additional flexible financing need.
    - *Health Care*. An estimated $12.7 billion in grants and flexible debt financing is needed nationwide to equip community health centers for the increased patient load expected with health care reform.[10] This will

produce substantial regional financing demand from health centers and hospitals serving remote areas and low-income residents--investments that provide particularly strong "multiplier effects" through nearby pharmacy, home health care, restaurant, hotel, and transportation small businesses and jobs.

- *Child Care*. The region's strong network of CDFIs, including Coastal Enterprises, New Hampshire Community Loan Fund and Vermont Community Loan Fund, were some of the nation's earliest lenders for childcare. The sector faces challenges in obtaining financing as the many home-based operators have limited resources and public sector support fluctuates. While individual loans tend to be small, need is persistent.

- *Nonprofit Sector*. Across the region, nonprofit organizations provide essential human services and cultural enrichment. Flexible financing combined with technical assistance on financial management, identifying new revenue sources and facilities planning (including energy efficiency and co-location) can assist these organizations to be more sustainable and effective. However, such financing and guidance is often difficult for nonprofits to obtain from conventional sources.

- **Sustainable Development: Overlay to Economic and Community Development**
  Sustainable development consists of economic and community development projects, products and processes that conserve or restore environment. In this transformational overlay to those sectors, capital is needed for:

  - *Land*. There is an ongoing need to secure land and/or waterfront rights at affordable prices. Financing is needed to convey forestland to sustainable uses, secure farmland for emerging farmers committed to sustainable practices, and secure waterfront rights for sustainable fishery operators.

  - *Green Retrofits and New Construction*. "Green" building practices that incorporate energy conservation and other benefits reduce operating costs for both existing and new buildings. While government and utility programs may help to finance the installation costs, flexible financing is often needed.

Community Foundation Impact Investing Strategy

NNE CFs' donor focus groups and market assessment determined that their institutions' increased participation and leadership in regional impact investing could add value on a number of levels. By combining impact investing with complementary grants, convenings and communications, they could help to meet financing needs and improve strategic coordination among current practitioners. Their integrated approach could:

- Expand and replicate successful models, fill financing gaps and leverage larger conventional capital sources to meet both current and latent demand for financing.

- Engage donors through impact investing, thereby activating community foundations assets held in donor advised funds for mission-driven investing opportunities.

- Use their strong reputations to convene and educate funders and potential investors about regional impact

investing, which could lead to opportunities for the community foundations to aggregate capital from interested national and local foundations and corporations, as well as prospective individual donors.

- Mobilize grant funding for the region's technical assistance providers that help local organizations to qualify for and effectively manage impact investments.

- Track, evaluate and communicate both the social and financial performance of impact investment in their states and the region, thereby helping to spur improvements in performance and greater investor interest.

The focus groups and broader field interviews determined that, as donors and other interested investors become involved in impact investing, they need intermediation. Community foundations represent a trusted broker. As such, they can help to source and vet investment-worthy opportunities in ways that are win-wins for investors, existing intermediaries and the range of community organizations, entrepreneurs and households that can qualify for impact capital.

Impact Investing: A Scaling Tool

MaineCF's proposed impact investing strategy states that "Impact investments are made with the anticipation that the capital can be recovered for future use. For this reason, strategic investments can be made at a scale that is typically beyond that of most of our grantmaking."

With leveraging as a guiding principle, the NNE CFs determined to advance on modest initial impact investing programs that might catalyze the larger sums of capital needed in the region over time. The strategy would focus on opportunities to replicate tested models and leverage conventional investors, while including some smaller, phased investments that help to develop new models. All three NNE CFs expressed an initial preference for investing through proven intermediaries, or in partnership with these institutions, who they might retain to provide investment due diligence and/or portfolio management.

Status of Impact Investing Strategies

Following Phase II of the project, each NNE CF continued to advance its impact investing strategy. For each, the process entails incorporating findings from the donor focus groups and demand for capital assessment with an understanding of approaches used by other community foundations, and their own foundation's priorities, capacity and appetite for innovation. As of the writing of this case, progress includes:

MaineCF: In May 2013, the MaineCF Board of Directors endorsed an expanded impact investing program to provide opportunities for donors to pool charitable resources with community foundation resources for the purpose of making loans and investments to advance the foundation's strategic goals. These include developing creative strategies to make bigger and longer-term commitments in order to achieve measurable outcomes in building a strong economy.

MaineCF plans to combine impact investing with grantmaking and other foundation activities to attain outcomes that grants or investments alone cannot achieve. For example, MaineCF has initiated a capacity building initiative focused on organizations engaged in community development finance in Maine, which are its likely impact investing partners in the future.

The foundation plans to begin by focusing its impact investing program on two areas aligned with the foundation's strategic plan:

- Sustainable agriculture and fisheries, a promising sector of Maine's economy that is experiencing growth due to the increase in the demand for locally grown food.

- Economic and community development, with a focus on enterprise expansion and downtown revitalization, especially the adaptive reuse of historic buildings in community centers for cultural, civic, commercial or residential purpose.

MaineCF will establish two impact investing pools to combine capital from multiple community foundation donors for each of the two focus areas. The community foundation plans to invest through intermediaries who bring expertise in each. It hopes to raise $2 million from donors for each fund by the end of 2013, and will develop specific donor engagement and communications tools to share the outcomes and what is learned through impact investing.

NHCF: In March 2013, NHCF staff presented its proposed impact investing strategy to its impact investment committee and later to the full board, who gave encouragement to proceed slowly and "learn as we go." During June, NCHF's Chief Financial Officer and Vice President of Finance, Michael Wilson, and Senior Program Officer, Celina Adams, presented an overview of work to date and key questions at all eight regional advisory board meetings across the state (with NHCF's president, Dick Ober, taking one meeting). Staff fielded a variety of questions, listened to feedback and heard uniform interest and support, along with appreciation that staff engaged advisor views while developing strategy (the advisory boards had requested to grapple with the issue in development). There was a feeling that the local boards would be allies in connecting staff with investment opportunities and donors. Over the summer, the core staff team engaged a broader array of colleagues to begin developing donor outreach and communication plans as well as program- specific investment criteria. In August, NHCF and MaineCF met to share progress and learnings from their respective institutions. Staff returns to NHCF's board of directors in the fall with a full impact investing strategy recommendation.

VCF: VCF continues to refine its impact investing model and bring its investments in closer alignment with the foundation's priorities and commitment to respond to urgent needs. CFO Debbie Rooney oversees the portfolio, while working with the VCF Impact Investing Committee as well as seasoned niche investment professionals to perform due diligence and structure potential investments in the local food system and affordable housing. This approach has several advantages:

- It leverages deep local market and sector knowledge on the part of the retained specialists.
- It is cost-effective, given that the specialists are highly efficient, local and with minimal overhead.
- It allows CFO Debbie Rooney and other staff to develop and maintain an in-depth knowledge of portfolio companies, which is useful for evoking the potential of impact investing in conversations with donors and other potential partners.

The Vermont Community Loan Fund's financing for affordable housing developers and a Waldorf School are just two examples of strengthening local institutions to provide quality services.

V. IMPACT INVESTMENT POLICY

Formalizing an impact investment policy and drafting the investment policy statement typically closely follow the planning of an impact investing strategy.

The investment policy statement is a backbone of fiduciary responsibility, which spells out how the duties of loyalty and care will be executed and by whom. These duties are as important for impact investing as for any other community foundation assets. Investment policy statements are typically living documents that are reviewed and revised by oversight committees from time to time.

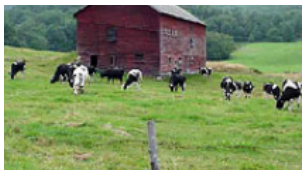
The impact investing policy may be written into a foundation's general investment policy or formulated as a stand-alone impact investing policy statement. Community foundations may favor creating a stand-alone impact investing policy statement, given that the funding for this program may be a carve out from larger pooled funds and/or may be largely capitalized with donor funds.

As suggested on the Roadmap, the investment policy statement typically addresses the scope of an impact investing program, including:

- Source and amount of funds in the program.
- Priority program areas or themes.
- Targeted asset classes and expected financial returns, along with any relevant financial performance benchmarks.
- Any targeted geographies.
- Due diligence protocols and investment criteria.
- Portfolio management protocols, including frequency of reporting and entities or individuals receiving reports.
- Governance, including responsibility for investment decision-making, oversight and reporting and other matters.

MaineCF's board of directors adapted an impact investing policy in in May 2013. NHCF will finalize its impact investing policy as the foundation moves to expanded program launch in coming months. VCF took the opportunity of revisiting and formalizing its impact investing policy as part of this collaborative process, drawing on both outside expert resources (from the Tuck Business School at Dartmouth College) and their new impact investing committee (see Appendix G).

The Vermont Community Foundation's investment policy statement allows for Vermont Investments (Appendix G) in a range of asset classes, including insured deposits in the Opportunities Credit Union, a CDFI that lends for the needs of low-income residents; Vermont Community Loan Fund, a CDFI that finances affordable housing, small business (including farms), nonprofit facilities and child care; and Fresh Tracks Capital, a regional venture capital fund whose investments in growth businesses such as the Native American-owned Native Energy create jobs within the state.



VI. OPERATING SYSTEMS AND SHARED SERVICES

The NNE CFs considered operating systems design on three levels:

- How should each community foundation structure its internal impact investing operation?
- Could the three NNE CFs join in a regional investment strategy?
- Could there be synergies in a shared service platform for backroom functions?

The NNE CFs determined that, at this time, they needed to focus on in-state strategies. Therefore, they placed the notion of regional investing on hold and focused on internal operations and the potential for shared services.

Structuring Internal Impact Investing Operations

Following the Roadmap, NNE CFs reviewed their existing impact investing infrastructure. The first decisions concerned how to staff, partner or outsource the tasks of expanding their programs. Discussions reviewed pros and cons of various options, as summarized in Table 2. In general, the NNE CFs have a preference for holding impact investing deal generation and certain aspects of portfolio monitoring in-house. However, none of them anticipate a volume of impact investing in the near term that justifies creating a full service in-house impact investing unit. Instead, each community foundation expects to outsource certain functions, particularly financial due diligence and perhaps some aspects of portfolio monitoring.

The next set of decisions concerned selecting advisors and/or partners, where desired. All NNE CFs appreciate the importance of local community knowledge and relationships to effective community foundation grantmaking. All therefore seek local expertise in their impact investing advisor and partner relationships, subject to meeting prudent criteria for experience and track record. This does not rule out bringing in regional or national advisors or partners, where those parties bring exceptional expertise along with a commitment to generating strong financial and social impact results within the region.

The NNE CFs are fortunate in that each state has qualified potential advisors and partners. A summary of the pros and cons of working with the various types of providers appears in Table 3.

VESTED FOR GROWTH

The Vested for Growth (VfG) small business lending program operated by New Hampshire Community Loan Fund provides royalty or "mezzanine" financing for established companies whose capital needs are not entirely met by banks or traditional equity sources. "While banks assess past financial performance, and venture capital firms seek ownership in their investments, VfG deploys risk-tolerant capital and a partnership that doesn't require ownership or decision-making authority in the company." Traditional venture capital seeks the ability to influence company decisions, including whether and how to sell the company in order to achieve an exit (repayment) and financial gains. This can lead to companies such as those VfG has financed being sold and moved out of town, taking away local jobs.

Table 2. Impact Investing Tasks: Managing In-House or Outsourcing

Task	Internal	External Advisor / Partner
Internal Education	• Easy to assess internal education needs • Time consuming to produce content	• Excellent impact investing training capacity exists; general materials can be customized to local community foundation • Efficiencies and cost sharing possible via sharing some or all training functions or generic materials with other foundations • Associations such as Mission Investors Exchange offer educational services ranging from webinars to in-depth institutes
Deal Sourcing	• Optimizes ability to connect impact investing strategy with community foundation strategy and grantees • It is easy for community foundation to take a lead in this area and incorporate external advisor and/or partner recommendations as they arise	• External advisors or partners may be aware of regional deal flow and able to generate opportunities that are a good fit with community foundation's strategy; • Advisors and partners may also be aware of risk factors that can limit time involved in cultivating deals that may not proceed
Financial Due Diligence	• Full due diligence is generally a time consuming and skill-intensive process	• External advisors and/or partners typically bring necessary skills and may have prior knowledge of particular investees and/or comparable organizations ("comps") that improves efficiency and quality of due diligence
Deal Approvals	• Community foundation typically creates impact investment committee to recommend and/or approve deals; approval may be at board committee or board level	• External advisors and/or partners may advise and/or serve on internal impact investment committees
Legal Structure and Documentation	• Community foundation may use investee legal documents and/or execute portions of legal documentation using boilerplate forms; review by qualified attorney is recommended	• External counsel for impact investments often have in-depth knowledge of similar transactions that may be useful in documenting and closing individual deals. This is particularly true for equity and real estate transactions. Insured deposits and fixed income investments tend to be more standard.
Deal Negotiating and Closing	• Important for community foundation to be involved, as issues addressed (including social metrics) become central to the long-term relationship and portfolio monitoring	• External advisors, partners and/or counsel often helpful in identifying critical issues and models from comparable transactions
Portfolio Monitoring and Reporting	• Important for community foundation to be involved, to oversee financial and social performance; monitor risk levels; address any problems identified in quarterly investee reports; maintain investee relationships; and harvest information for reporting to impact investment committee, directors and other stakeholders	• Portions of portfolio monitoring task can be outsourced, including loan and/or investment administration; gathering and review of financial and social impact information; creation and updating of financial and social performance dashboards; management of workouts (troubled investments) • When outsourcing portfolio monitoring, community foundation must receive quarterly notice of any potential performance problems

Table 3. Working with Regional Impact Investing Advisors and/or Partners

Regional Advisor or Partner Type	Pro	Con
Individual Professionals	• Qualified professionals may have extensive experience in impact investing, often by virtue of having previously worked for a CDFI or other impact investing organization.	• Capacity to manage a larger portfolio or multiple assignments at one time may be limited.
CDFIs and Similar Mission-Driven Intermediaries	• May possess excellent market and sector knowledge, which contributes to quality due diligence	• May lack objectivity due to conflicts of interest (may be competitive with other organizations that the community foundation would like to fund). • Skill set is likely limited to a small number of asset classes. • CDFIs must be screened for performance qualities. It is helpful if they have obtained a CARS rating (CDFI Assessment and Rating Service)
Asset management firms specializing in social investing	• May be able to support community foundation in due diligence on multiple asset classes	• May not be familiar with community development investing. Fee structure requires comparative analysis.
Other intermediaries, such as banks	• May be willing to leverage foundation investment with bank investment, and may help to attract other investors.	• Community foundation could be a small, but labor–intensive customer, leading to lack of attentive service.
Public agencies	• May have extensive useful information about grants, credit enhancement and other programs.	• Public agencies are key partners to private sector impact investors, but less likely to provide due diligence or asset management services.

VCF is well advanced in an operating model in which it sources its own deals and monitors its own impact investing portfolio. However, it retains outside professionals for in-depth due diligence. VCF is fortunate that its conventional investment consultant, Colonial Consulting LLC, has been willing to assist the community foundation in setting up and evaluating some of the investments for its Vermont Investments program (Appendix G). Colonial Consulting remains involved in monitoring Vermont Investments along with the VCF's conventional investments and as noted the foundation has remained at or very near the top decile of financial performance for community foundations of its size. For its increasing interest in local food systems projects (see sidebar, following section), VCF partners with seasoned niche financial experts to obtain due diligence. This includes working closely with one of the foundation's supporting organizations that is actively involved in building capacity and/or investing in local food systems. It also includes working with other regional impact investment leaders such as Castanea Foundation, a private operating foundation whose focus and experience in local food systems provides VCF with opportunities for co-investment, pipeline development and investment structuring support.

Seeking Synergy in a Shared Service Platform

All three NNE CFs would attest to the "high touch" nature of sourcing, providing due diligence for and managing quality impact investments. Each community foundation is interested in both outsourcing a portion of this labor to mission-aligned experts and also finding ways to cover the costs. For now, the VCF seeks to cover costs through a general donor advised fund fee of two percent, which already incorporates a factor to enable the foundation to carry out a broad leadership role. Both MaineCF and NHCF have been retaining an administrative fee on their community foundation loans.

Looking ahead, all three NNE CFs remain interested in the potential of a shared services platform for cost sharing, efficiencies, information sharing and other synergy across the states. While MaineCF and NHCF are still early in the process of implementing their expanded impact investing strategies, all three NNE CFs identified tasks that they might outsource to a shared services platform, with a menu of services such as outlined in Table 4.

The Role of Collaboration

The NNC CFs found advantages in collaborating on various aspects of the design and the implementation of impact investing strategy. During Phase II, they proceeded on parallel paths in which each community foundation advanced in its own impact investing strategy, while the group collectively considered whether and how they could enhance impact or efficiency through collaboration (Figure 6).

To date, the key benefit of collaboration has been shared learning and the deepening of relationships both within each community foundation (through cross-functional teams) and across the region (particularly within functional areas).

Figure 6. Community Foundation Impact Investing Collaborative Process

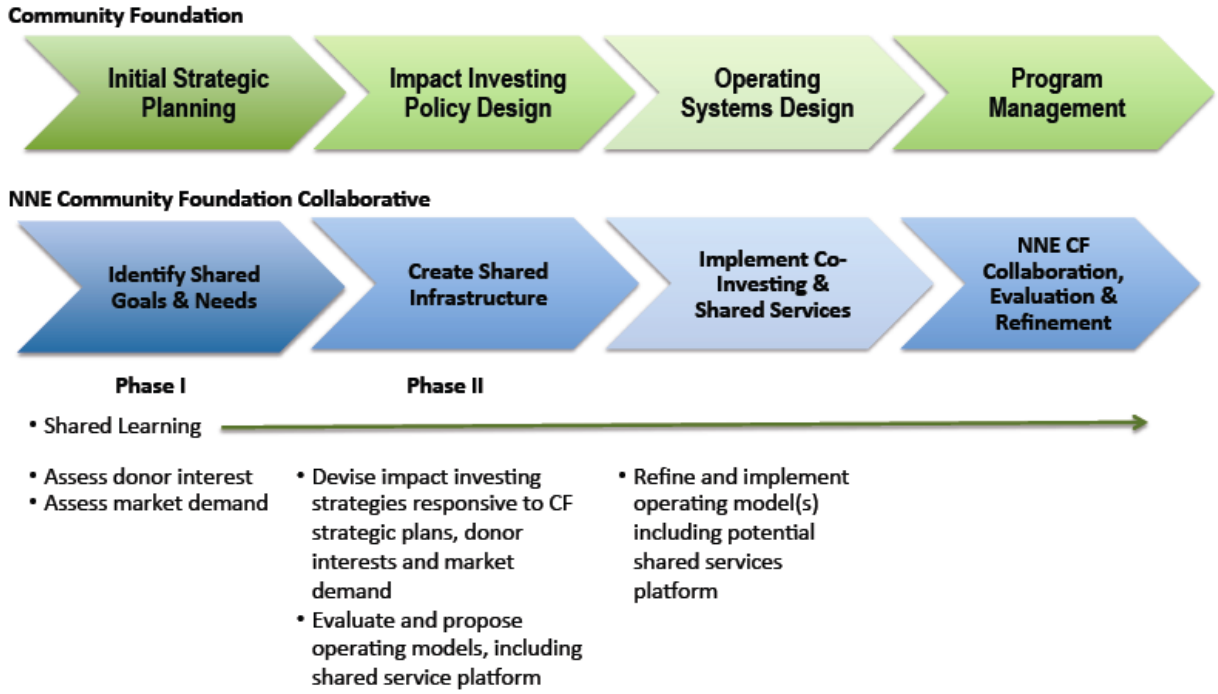


Table 4. Shared Services Platform – Potential Services

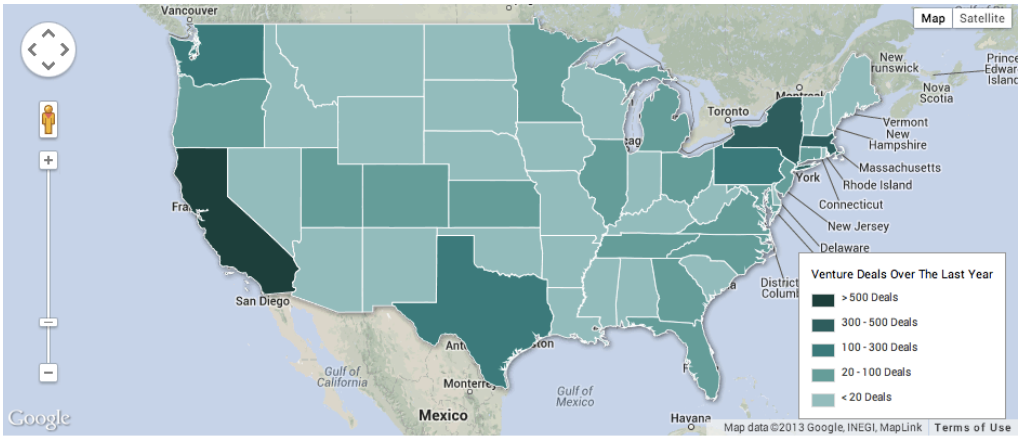
Functions / Services	Description	Example Provider(s)
Deal Originations		
Deal Sourcing	Largely in-house via grantees, donors, partners, although an impact investing collaborative might jointly source deals under a shared strategy, such as regional environmental sustainability, food systems or transit-oriented development.	Other investors, advisors, Community Development Financial Institutions (CDFIs), banks, incubators, universities.
Due Diligence	Often out-sourced and may be shared by multiple impact investors with aligned goals that are backing the same organizations and/or projects.	Consultants, selected CDFIs or intermediaries.
Legal		
Prepare Term Sheet	Professional consultation helpful for all legal tasks, especially at first. An area for substantial cost saving if shared among multiple aligned impact investors for investments in the same organizations and/or projects (even if these may not occur at exactly the same time).	Attorney, ideally specialized in impact investing including program-related investing.
Negotiate Terms	Professional consultation helpful, especially at first.	As above.
Document Investment	Professional consultation helpful, especially at first.	As above.
Close Investment	Professional consultation helpful, especially at first.	As above. Consultants can also be helpful.
Asset Management & Reporting		
Portfolio Monitoring	Frequently outsourced	Consultants, CDFIs or similar intermediaries.
Social Metrics & Evaluation	Frequently outsourced for either the design and/or management of some aspect of social metrics reporting. Can range from designing and populating a dashboard to a more comprehensive program evaluation. Can engage regional academic institutions.	University, consultants, selected CDFIs, community development units of bank regulatory agencies.
Leverage Program		
Facilitate Deal Co-Investment	Foundation always "at the table" but many tasks can be outsourced	Consultants, CDFIs and similar intermediaries.
Source Additional Capital	Foundation always "at the table;" selected tasks can be outsourced.	Consultants.
Build Capacity & Communications for Program		
Market Capacity Building Services	Create support clearinghouse/"ecosystem" for social enterprises to learn about and potentially qualify for impact investment. This may draw on services that foundations using the shared services platform already offer and/or refer to, including training and incubators sponsored by local universities, community colleges, government agencies; and nonprofit organization capacity-building.	As described, and CDFIs, government agencies (SBA Score program for small businesses, USDA for rural businesses, CDFI Fund capacity building programs), selected consultants.

Functions / Services	Description	Example Provider(s)
Education	Board, donor and staff training on impact investing strategy and execution; foundations can leverage foundation trade associations and other providers, whose offerings can be customized to the foundation.	Consultants, selected CDFIs or similar intermediaries, trade associations.
Communi-cations	General consultation and development of core messaging and/or templates, which can be customized to the foundation.	Communications firm.

The NNE CFs also realized that the advantages of collaboration must be weighed against the potential disadvantages. These include:

- Time required to be involved in a collaborative project, which may slow an individual community foundation's momentum.
- Fair share allocation of costs – both upfront and ongoing.
- Fair share receipt of services by individual community foundations.
- Ability to "exit" if the collaboration is not serving the needs of an individual foundation, or if the effort loses support for other reasons.
- Potential financial destabilization of a collaborative, if one or more individual foundations exit.

The NNE CFs are proceeding with a commitment to continue sharing learnings and exploring where shared services can add value.



There were 11 venture capital investments in New Hampshire during 2011, compared to 400 in neighboring Massachusetts. New Hampshire Charitable Foundation invested in the Granite Fund, a state-based and state-backed, $30 million venture capital fund managed by Borealis Ventures that seeks to increase the flow of start-up capital to innovative, locally headquartered technology firms that create jobs. Using funds from the federal Jumpstart Our Business Startups Act (JOBS Act), the state's $4.5 million investment provides up to 15 percent downside risk protection to private investors, creating a win-win for local companies, employees and impact investors. (Statistics and the map of venture deals by state are based on the PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report based on data from Thomson Reuters. Narrative from New Hampshire Public Radio 2012, http://stateimpact.npr.org/new-hampshire/maps/11072)

VII. LEVERAGING THE STRATEGY

Rural community foundations can exercise leadership in the impact investing sphere by both educating and engaging donors, co-investors and other partners. Given that most rural community foundations are of modest size, leveraging is a critical component of the impact investing strategy.

Education Efforts. Rural community foundations can educate the philanthropic and nonprofit community; foster and strengthen existing and new intermediaries; support local nonprofit organizations and social enterprises in qualifying for impact investment; and educate and advocate with local, state and federal agencies. Each of the NNE CFs has taken recent leadership roles on these fronts:

- MaineCF has sponsored and helped to organize a series of meetings on impact investing with the Maine Philanthropy Center. These events have brought together current and potential impact investors as well as intermediaries; cultivated partnerships; and highlighted regional investing opportunities.

- NHCF provided an educational session on impact investing at its Regional Advisor summit with 250 attendees.

- VCF sponsors its regional grantmakers association and is in engaging in co-investments with a number of regional impact investors.

The effort to build awareness of regional impact investing and each community foundation's role is paying off:

- In Maine, an anonymous donor has made a $500,000 gift to provide permanent capital for MaineCF's impact investing pool that will support sustainable agriculture and fisheries; a field-of-interest fund has made a pledge to transfer $360,000 (10 percent of the fund's corpus) to be used for impact investing over the next ten years; and another anonymous donor has pledged $500,000 for impact investing for a five- to 10-year period.

- In New Hampshire, Borealis Ventures, a New Hampshire–based venture capital firm in which NHCF had made prior investments, approached the community foundation with a novel investment opportunity. The Granite Fund, the new investment vehicle, is closely aligned with the Foundation's re-affirmed interest in local job creation. Through a partnership with the State of New Hampshire, this new Borealis Ventures fund will provide downside risk protection to investors for a strategy that channels growth capital to technology, clean energy and other businesses with strong job creation potential in the state.

- In Vermont, the community foundation partners with others on its food systems strategy (see sidebar), including Castanea Foundation and High Meadows Fund (a VCF supporting organization). VCF has made an investment into the regional Vermont Sustainable Jobs Fund, for which local food systems is a key focal area.

Leveraging Additional Capital. Beyond their current leadership in local impact investing partnerships, each NNE CF envisions the potential to attract additional capital from foundations and other impact investors who share the NNE CF's impact investing interests and would channel their impact investments through and/or in alignment with the community foundations.

There are precedents for community foundations serving such a local capital conduit function. Wells Fargo extended a

Vermont Community Foundation Rallies all Tools for Healthy Local Food

"The Vermont Community Foundation is rallying its philanthropic tools behind the Food & Farm Initiative, beginning in Vermont schools, where close to 40 percent of children qualify for free and reduced price meals.

This has benefits that extend far beyond the child. Children introduce new foods to their household. They develop tastes that drive their purchases later in life. Schools are institutions that regularly purchase in bulk, driving processing and distribution that makes farming more sustainable and innovative, a support to local and state economies.

VCF Will Gather Groups and Individuals / Support Research / Coordinate Plans. We will support:

- Those working to increase access to local food in schools, especially scalable and statewide models.
- Key recommendations, related to the 10-year strategic plan.
- Work with donors in Vermont and beyond to bring more support.

Focus Grants On Programs That:

- Provide skills to stakeholders to develop and manage Farm to School programs.
- Provide farmers with the technical assistance they need to work effectively with schools.
- Strengthen the system for collecting, processing, and distributing products for consistency in quality, quantity, and delivery time.
- Develop metrics that help schools and institutions demonstrate the impact of Farm to School, to encourage continued investment.

Direct Parts of our Investment Portfolio to Food and Farm Work

There are impact investing in projects that would make it easier to deliver local foods to Vermont markets and beyond. Among the opportunities we may consider:

- A proposed meat processing facility in Middlebury to meet demand for local meat and provide some of the job training identified as a need in Farm to Plate.
- A proposed storage, processing, and agritourism facility in St. Johnsbury that would support small-scale Farm to School programs and help local producers share their products with visitors." (Vermont Community Foundation 2013)

$500,000 loan to the Marin Community Foundation (MCF) for re-lending to local nonprofit organizations under MCF's impact investing program (an in-house loan fund that also attracts allocations from donor advised funds). Dignity Health, a faith-based health institution that operates some 40 hospitals, has extended a $500,000 loan to the Arizona Community Foundation for similar purposes.

The potential exists for national and regional family foundations to similarly direct their impact investing assets through one of the NNE CFs, based upon the investor's priority interests and geography. During NNE CF focus groups, a number of participants who had their own family foundations indicated strong interest in co-investment.

Cultivating such relationships involves understanding and managing certain risk factors, including:

- **Competition** with other local organizations that are also seeking resources. As one example, CDFIs seek capital from regional and national investors. It will be important to differentiate the community foundation's goals and seek win-win strategies with such institutions. These might emphasize use of investor proceeds for purposes that are different from and complementary with CDFI activities, and the ability of the community foundation to aggregate large numbers of small investors to make one large investment in a CDFI on favorable terms.

Regulatory issues. As part of its work for the NNE CFs, GPS Capital Partners carried out preliminary research on regulatory issues affecting the NNE CFs' ability to execute impact investing strategies involving donors and external co-investors. While the specifics of regulatory compliance must be researched and established at the level of each state's securities agency, preliminary findings indicate:[11]

- "Security" is broadly defined under U.S. securities laws, and can include a wide variety of instruments, including stocks, bonds, notes, certificates, investment contracts, guarantees, and other instruments.

- Donor advised funds are gifts to a community foundation and, as such, do not appear to be subject to securities regulations.

- Promissory notes, bonds, and other debt instruments issued by a community foundation are often "securities" for the purposes of U.S. securities laws.

- Nonprofit securities are exempt from federal registration, provided that a charitable organization is the issuer and no part of that issuer's net earnings inure to the benefit of any private person.

- Nonprofit securities are subject to federal anti-fraud and disclosure regulations, which require that the issuer provide full and fair disclosure of all material information that a reasonable person would consider important in deciding whether to make the investment.

- Recent federal legislation has liberalized marketing rules relating to offerings to "accredited" investors, which may create an opportunity for nonprofits and other social enterprises seeking to raise capital without federal or state registration.[12] Given the rigorous due diligence needed for investment decisions, however, the new rules may heighten the importance of intermediation such as a community foundation can provide. Issuers including community foundations should work with experienced legal counsel to make sure that the requirements of the exemption are met.

- Nonprofit securities are subject to state securities laws (also known as "Blue Sky Laws"), which generally require registration of nonprofit organizations as issuer-dealer or broker-dealer, and individuals as agents or salespersons.

- Securities registration is typically required in each state where an investor is located or securities are marketed or sold, unless the state has an applicable exemption from registration. There may be more than one exemption that meets the needs of the issuer. For example, many states exempt the registration of securities issued by nonprofit organizations, subject to conditions and exceptions.[13] Other exemptions for sales to "accredited" investors[14] or investment-grade securities may be available.

- State securities laws, including registration requirements and exemptions from registration, vary considerably, particularly if a relevant state opted out of the Philanthropy Protection Act of 1995.[15] It is important to understand the applicable requirements (links to state securities commissioners, further articles on nonprofit securities and a glossary of investment and securities terms appear in Resources).

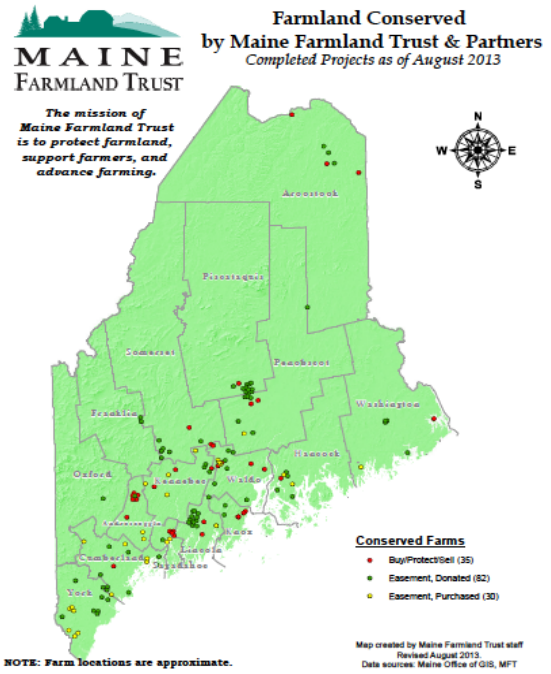
VIII. CONCLUSION AND NEXT STEPS

All three NNE CFs are expanding use of impact investing in their portfolio of approaches to achieving social and environmental impact in their diverse, primarily rural communities. The opportunities include:

- Scale successful models and fill financing gaps within their states, particularly for local job creation and environmentally sustainable development:
    - MaineCF and NHCF will align impact investing to their new strategic plans.
    - MaineCF will focus on the emerging sustainable agriculture, fisheries and food systems sector, and business and downtown development, especially preserving historic buildings in downtown areas to spark economic development.
    - NHCF will seek to tie its impact investment to its broad focus in six areas: environment, health, education, economic development, arts and culture, and civic engagement. The Foundation will seek a balance between responsiveness to community need and opportunity and its deeper initiative work in substance use disorders, early childhood education, and key environmental initiatives. During its phased work to develop an impact investment strategy, NHCF made one investment in a job creation venture fund, but took a hiatus from its traditional, donor-driven nonprofit lending.
    - VCF is filling gaps in the sustainable food system (see sidebar, Section VII) and affordable housing sectors, and will continue to invest in opportunities that improve Vermont communities, especially those that are rural and underserved.
- Respond to donors' interests, and potentially differentiate community foundations from alternative donor advised fund providers. Some donors are engaged today; many are excited to learn and do more. They are informed by a range of values, ranging from promoting self-sufficiency and entrepreneurship to preserving a sense of place to preserving the environment. They are also receptive to joining in community foundation impact investing pools. They understand that in the absence of compensating fees, customizing investments is costly for the foundation.
- Activate more fully the substantial portion of community foundation assets in donor advised funds for mission purposes.
- Leverage community foundation credibility to educate and attract potential investors inside and outside the foundation about the field of impact investing.
- Serve as impact investing aggregators, mobilizing capital from regional grantmakers and others, including national and local private foundations and individuals of means who may be more attracted to investing than grantmaking as a means to drive social change:
    - MaineCF's early success in attracting grant and loan commitments for its proposed impact investing pools provides encouraging evidence of the potential here.

Investing to Conserve Working Landscapes in the Farm Sector

MaineCF's $1 million dollar low-interest loan to support Maine Farmland Trust's efforts to permanently protect farmland is an example of where the foundation is already using impact investing to advance a strategic priority and engage donors. In 2009, nine donors joined with MaineCF to make this loan. To date, 26 farms covering 8,803 acres have been protected from development and transferred to the next generation of farmers. These projects have leveraged over $4,376,000 in bank financing and $8,965,000 in additional loan funds from private investors.



- Help to track and evaluate the efficacy of impact investments in their states and the region.
    - Along with standardized social impact dashboards such as the Global Impact Investing Network's IRIS, vignettes such as MaineCF's snapshot of its Maine Farmland Trust investment can be highly motivational (see sidebar).
    - As part of a shared services platform, the NNE CFs may be able to partner with university programs such as the University of New Hampshire's Carsey Institute for social metrics tracking system design and ongoing reporting.
- Combine impact investing with complementary grants, convenings and communications as a portfolio of approaches that improves strategic coordination, efficiency and capacity to drive impact among the field's practitioners.
    - MaineCF has initiated a nonprofit capacity building program focused on CDFIs parallel to its impact investing program, as one example of such an approach. All three NNE CFs' involvement in impact investing convenings are another example.
- Generate new perspectives on a community foundation's community, which has potential to increase the effectiveness of grantmaking and other community foundation activities.

As noted in earlier sections, risk management is critical to long-term success. The goal of an impact investing strategy is to match investment strategies and vehicles to the region's adaptive and growth opportunities, demonstrating social, environmental and financial success that attracts more donors and partners over time. This is a long-term strategy in which communities are likely better served by community foundations moving cautiously with success than overstretching current market capacity. As they proceed, risks and potential mitigation strategies include:

- Risk: The community foundations are unable to raise sufficient capital from donors given small population sizes and a limited number of high net worth donors.

- Mitigation: Obtain pre-commitments of donor capital representing a substantial portion of any targeted pool or initiative capital goal before launch. This can be structured as challenge investment to other donors.

- Mitigation: The community foundations can create a smaller goal, phase and/or otherwise revise expectations. They can frame their initial impact investing as a learning evaluation that will be reviewed and potentially expanded as milestones are achieved.

- Risk: There is insufficient qualified deal flow to deploy the capital. This situation may arise particularly in job creation-focused strategies, where the universe of potential investments includes micro- and small businesses. Here the entrepreneurs seeking capital have few assets to invest in project equity (similar to the downpayment on a house) and/or to pledge as collateral. The deals tend to be smaller and riskier than real estate-collateralized investments.

  - Mitigation: Community foundations can educate donors about the importance and special characteristics of microlending and/or seed investment strategies, which deploy small dollar amounts for important results.

  - Mitigation: Community foundations can lend through intermediaries who are expert in using available loan guarantee programs, such as the USDA, SBA and certain state-based programs. Their strategy can also target a mix of loans to business enterprises and commercial real estate. A commercial real estate investing strategy targets much larger transactions including working landscapes and historic buildings, Loans for such purposes can be guaranteed, and can use tax credits to lower the cost of financing and attract a larger universe of potentially credible investees.

- Risk: The investments fail to perform financially.

  - Mitigation: Having in place a rigorous due diligence protocol goes a long way to selecting qualified investees on the front end. Then, establishing performance expectations with all parties is critical. This includes both repayment expectations for investees and wavier forms on donor agreements that highlight the potential for financial loss.

  - Mitigation: Apply proven ways to limit the financial risk of impact investing, including: working with intermediaries; making small, staged investments; engaging in public-private partnerships, such as the Granite Fund in New Hampshire; and establishing a strong ecosystem of management and capacity building supports for investees. Finally, the program can have a loan loss reserve that protects donors and other investors from loss, in the event that one or more investments do not perform. A strong community foundation impact investing program can bring all these risk management tactics to bear.

- Risk: The investments fail to generate desired social and/or environmental impact.

  - Mitigation: It is important to monitor impact at both the individual investment and portfolio level. NNE CF strategies are setting out target financial and social success measures in advance, and individual investment review will evaluate expected financial and social returns during the due diligence process.

Quarterly monitoring of portfolio investments allows for performance review and dialogue if mid-course corrections are needed.

- Risk: A cost-effective operating structure cannot be found.
    - Mitigation: Careful evaluation of program goals and execution options in advance should identify cost-effective solutions. Limited contracts with vendors allow for periodically re-evaluating performance and cost-effectiveness. Continued exploration of cost-sharing and a shared platform should continue.
- Risk: Donors prefer customized, one-off approaches to pooled strategies.
    - Mitigation: Pooled impact investing strategies offer strong opportunities to generate social impact, along with considerable administrative cost savings. The pooled strategy might offer "best efforts" to reinvest in the donor priority geographies or program areas and reporting should include case examples responding to donor interests. If donors express a preference for more customized approaches, mitigation includes triggering a special service fee.
- Risk: The reputation of the community foundation is tarnished. There could be multiple causes for this, including but not limited to a perception that the community foundation is entering into a real or perceived violation of fiduciary responsibility, commercializing philanthropy or cannibalizing both local CDFIs and grantmaking.
    - Mitigation: Ongoing communications, evaluation and dialogue on the nature and evolving means of change agency. Dialogues should communicate the community foundation's compliance with and commitment to all relevant regulations, philanthropic values and win-win relationships with mission-aligned organizations.
- Risk: Community foundations wishing to pursue a collaborative strategy have difficulty creating a common strategy and platform for impact investing.
    - Mitigation: The community foundations can pursue independent strategies, seeking collaboration where possible. In the short term, MaineCF and NHCF will jointly meet to review progress and learnings, and to explore potential collaboration between staffs.

Collaborative effort among community foundations is helping to accelerate learning and mitigate risk. However, these gains can be offset by added time and cost in the short term, recalling the African proverb "If you want to go fast, go alone. If you want to go far, go together."

Fortunately, the sector's trade associations including the Council On Foundations and Mission Investors Exchange have come together to support community foundations in learning about and launching impact investing strategies. This sets the stage for sector-wide gains in effectiveness. We hope that this report focused on rural community foundation impact investing is a useful addition to the sector's body of knowledge, and that, as additional rural community foundations design and implement programs, they too will share their experience and learning.

In rural philanthropy generally and impact investing in particular, we see potential to reinforce the importance of rural economies and ways of life--for those who live there and for the nation as a whole. Increasing rural focus on land conservation, long-term wealth creation, innovation and adaptation is yielding financial as well as social and

environmental returns. Far exceeding the classification as simply “not urban,” these distinctive communities are modeling environmentally sustainable approaches to community and economic development that are influencing the practice in larger regions including cities. With the support, leadership and, increasingly, impact investment of their community foundations, they are safeguarding places of natural beauty, varying character, traditions and economic renewal for all to enjoy.

Appendices

Appendix A. Northern New England Community Foundations Impact Investing Project Phase I and II Activity

Appendix B. Northern New England Community Foundations Impact Investing Project Guiding Principles for Collaboration

Appendix C. Focus Group Questions for Donors and Prospective Donors

Appendix D. Research Process and Questions on Demand for Capital and Intermediary and Investment Advisor Capacity

Appendix E. Regulatory Considerations for Impact Investing by Community and Private Foundations Side by Side

Appendix F. The Impact Investing Ecosystem by Institution Type

Appendix G. The Vermont Community Foundation Investment Policy

Appendix H. Resources

Appendix A
Northern New England Community Foundations Impact Investing Project
Phase I and II Activity

Over Phase I and II, the Northern New England community foundations (NNE CFs):

Phase I:

- Came together to learn of each other's history with impact investing and goals for the future.

- Created multi-functional teams within each community foundation to participate in the project, including finance, program and development officer representation.

- Carried out donor focus groups to educate and determine donor preferences for how impact investing might be focused and structured within the community foundation. These sessions revealed a strong interest in impact investing by donors of all ages, with primary interests in sparking environmentally sustainable local development and job creation.

- Carried out a scan of the landscape for impact investing, including a demand for capital assessment to determine the current level and source of impact investing in the region, along with potential for absorbing new capital that the community foundation impact investing programs might unleash.

- Explored options for how all three NNE CFs could collaborate on an ongoing basis, ranging from short-term ideas like sourcing expertise collectively to potential longer-term creation of a regional investment fund.

- Reported learnings to date at the Mission Investors Exchange conference and a Maine Philanthropy Center forum.

Phase I satisfied its two go no-go elements of (1) identifying strong donor interest in impact investing as a program strategy and donor service, and (2) identifying adequate qualified demand for capital in donor areas of interest.

Phase II:

- Assessed priority next steps, which revealed the importance for two community foundations of developing impact investing strategies that could be incorporated into emerging strategic plans. This shifted the focus for these institutions to internal and in-state processes, lowering the priority of a potential regional fund in the near term.

- Created a community foundation impact investing roadmap and action plans customized to each institution.

- Created an internal impact investing committee to oversee strategy and implementation at each community foundation.

- Met regularly in person or by phone. Multi-functional teams from all three community foundations shared learning and internally developed materials, identified priority needs and explored common ground. This facilitated reporting to each community foundation's internal impact investing committee, staff and board.

- Reviewed impact investing models used by other community and private foundations, and explored how a shared services platform could offer a cost-effective solution for providing the quality of needed impact investing professional support.

- Carried out preliminary research on regulatory issues affecting their ability to plan and execute impact investing strategies involving donors and potential external co-investors.

- Secured funding to support reporting learnings to the field. The NNE CFs presented their work at the 2012 Council on Foundations (COF) community foundation meeting and representatives joined COF's new roundtable on building community foundation impact investing capacity.

Phase II satisfied its primary go no-go element of securing board support within each community foundation to expand impact investing programs, including with donor engagement (although this may be staged at the VCF). As described within the case study, each community foundation also developed and/or refined its impact investing strategy and operating plan during this phase. All three institutions are advancing the implementation of those plans. They remain open to the potential for collaboration in various ways over time. MaineCF and NHCF are actively sharing information and exploring the potential for collaboration as they launch their newer programs.

Appendix B
Northern New England Community Foundations Impact Investing Project
Guiding Principles for Collaboration

1. Carry out our fiduciary responsibility.
2. Focus on community priorities that are 'market tested,' i.e. address capital gaps.
3. Seek 'fair share' geographic costing, allocation (e.g. ranges, diversity, liquidity).
4. Develop financially sustainable operation.
5. Communicate regularly and "invest" in the collaborative; openly talk about the balance between states and region.
6. Provide opportunity for individual community foundations to exit within a longer term structure; and buffer against changes in people.
7. Demonstrate leadership (and innovation) in responding to community needs.
8. Build off existing infrastructure "writ large." Seek unique value proposition. Be additive; do no harm to what is already in place.
9. Serve both statewide and regional level.
10. Actively learn and share results with the field.

Appendix C
Focus Group Questions for Donors and Prospective Donors

Overview: Focus groups could include a mix of current and potential donors to serve several purposes:

1) Provide educational content to donors and prospective donors about the opportunity, potential and specific types of impact investments, as well as role and accomplishments of the community foundation.
2) Provide the community foundation with practical feedback from donors and prospective donors on their appetite for, concerns about and specific interests in various types of impact investments, as well as appropriate roles for the foundation in offering impact investing opportunities.
3) Potentially enroll select donors in helping the community foundation to develop these products and services.

Focus Group Process:

1) Frame focus group questions with an educational description of impact investing. Give some concrete examples of specific impact investments made in the region and potential opportunities going forward.

2) Questions about interest in the concept:
   a) Were you familiar with this concept of impact investing (sometimes called "social investing" and increasingly called "impact investing")? Is our description clear and understandable? What clarifications do you need?
   b) Have you ever made an investment - or considered one - that fits the description we offered of impact investing? What was it? How did you do it? What were your motivations?
   c) What are the major obstacles or limitations to you in considering impact investments?
   d) How would you rate your interest in making some of the specific kinds of investments we described earlier? Why?
   e) What could make impact investing an attractive possibility for you? What criteria or characteristics would you take into account: e.g. risk, return, timeframe, track record, urgency of the issue area, innovation, etc.

3) Share with the group some preliminary ideas for how the community foundation could structure and offer opportunities for impact investing. Get feedback on their concerns, interest, and suggestions for improvement:

   a) This community foundation already has the following impact investments: (fill in) Do you think the foundation should make more impact investments?
      i) What if some impact investments were made instead of making grants?
      ii) What if some impact investments were made instead of investing in traditional financial instruments?
      iii) Would you establish or increase a donor advised fund (DAF) at the foundation to engage in impact investing?
   b) The community foundation has (or other community foundations have) offered donors the opportunity to invest or co-invest with the foundation on some impact investing opportunities, such as (fill in). Would you like to be offered opportunities like this and others going forward? What do you see as the opportunity? What are your concerns?

c) This chart (to be developed) describes a range of “products” that would make impact investing available to community foundation DAF holders (e.g. invest in a fund, invest in specific opportunities, etc.). Which of these do you think is most attractive and why? Least attractive and why? What dollar amounts and/or percent of your DAF would you consider investing these types of impact investments?
d) Do you think the community foundation is well positioned to be offering these kinds of products/services? Why or why not? Suggestions for improving the positioning? Would you be willing to give the community foundation further advice as it develops its strategy for impact investing?

Appendix D
Research Process and Questions on Demand for Capital and Intermediary and Investment Advisor Capacity

Pursuant to focus groups and other research to determine priority donor and prospective donor interests at NNE Cluster foundations, the process for researching the demand for capital will draw upon the following sources to inform an estimate of qualified deal flow by asset class that might develop in each NNE Cluster state over the next one-to-three years. The research will emphasize below market-rate and patient capital that would not be available from conventional sources. However, it will also consider market-rate opportunities through which NNE Cluster foundations can reinforce mission:

1) Review existing reports and analyses on demand for credit and investment among organizations and businesses in NNE Cluster communities. This includes published field reports, as well as internal analyses prepared by the individual foundations and regional intermediaries and funds.

2) Interview and review recent lending and investment activities by regional Community Development Financial Institutions (CDFIs), similar intermediaries, community banks and selected private equity funds. Gather their perspectives and estimates on expected lending and investing activity, including both ongoing business lines and any emerging sectors such as sustainable agriculture and food systems and community-based health care. Emphasis will be on the number of quality deals that CDFIs and other intermediaries have looked at and could not fund because they did not have the capital.

3) Interview selected other sustainable community development practitioners who take on financing from the range of intermediaries to reality check demand assessments.

4) Review historical and planned investment activities in each state by national intermediaries and funds whose strategies are consistent with the community-based, environmentally sustainable framework prioritized by each foundation. This will be a broad scan of activity rather than a focused look at particular subsectors.

5) Identify emerging lending and investment opportunities associated with new federal and/or state programs, which may be accomplished through discussions with regional CDFIs that closely monitor federal and state programs.

6) Identify potential credit and investment gaps that offer potential for community foundation impact investment, and the extent to which regional CDFIs have the expertise and capacity to address these.

7) Review community-based lending and investing activities in other regions and by other community and/or place-based foundations to identify any strategies that may be transferrable, with an emphasis on analyzing the extent to which these approaches may be transferable given expressed donor and prospective donor priorities.

8) Consider the range of asset classes through which NNE Cluster foundations might support regional CDFI, fund and other investment opportunities, including recoverable grants, guarantees and real assets, some of which (such as land) may have particular relevance in rural settings. Note: we do not assume that any of the NNE Cluster foundations wish to

emphasize real asset-based impact investing strategies. That said, there may be opportunities for donors to grant land to rural community foundations that cause the institution to become at least a temporary landholder, and may support sustainable agriculture or conservation program priorities.

9) Identify lending and investment opportunities that may benefit from collaboration across all three NNE Cluster foundations, and those that may benefit from further collaboration and co-investment, such as by regional and/or national community development or health funders.

10) Subject to foundation approval and/or participation, interview each foundation's investment committee and primary conventional investment advisor to understand each institution's risk tolerance, interest in and current pipeline of potential market-rate impact investments that could reinforce mission and be of interest to DAF holders.

In addition to these questions focused on the demand for capital, the team will survey regional investment intermediary capacity. The survey will focus on identifying a range of investment managers serving each state that can help with due diligence and diversification of investments, including an assessment of expertise, capacity and cost.

Finally, the team will assess the regional "ecosystem" of organizational capacity building and other market development and/or networking initiatives with potential to inform social enterprises about how they might benefit from, qualify for and successfully repay community foundation impact investment.

Appendix E[16]
Regulatory Considerations for Impact Investing by Community and Private Foundations Side by Side

Considerations	Foundation Type	
	Community Foundations	**Private Foundations**
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 Internal Revenue Service (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 still may 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 of and for the 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).[17]
Impact Investing		
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.

Considerations	Foundation Type	
	Community Foundations	**Private Foundations**
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 (grant allocation from expense budget). • Supporting organization. • Donor-advised funds. • Agency endowments.	• Grants budget. • Endowment. • Dedicated pool.
Regulatory accounting and reporting	• IRS does not define PRIs for community foundations; practitioners use the term to have the same definition as the one for private foundations in the Tax Code of 1969 (see right column). • 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; only an insubstantial part of its activities may be devoted to a noncharitable purpose. For any impact investment, as for its other activities, the foundation must determine that a charitable purpose is being served and no private inurement or excess private benefit is involved.[18] • 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	• 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 IRC; 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. • 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 (although the foundation may continue collection efforts).

Considerations	Foundation Type	
	Community Foundations	**Private Foundations**
	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.[19] • 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 program-related investments is reported as and with program service revenue, rather than as or with income from other types of investments. In "Part IV. Balance Sheets," program-related investments are included with other assets.[20] • As with foundation investments generally, UBIT may apply, particularly to market-rate impact investments that do not meet the IRS criteria for being "substantially related" (IRS 2010). • 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 2010; Stetson and Kramer 2008).[21] • 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	• 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. • Unrelated business income tax (UBIT) may apply, particularly to market-rate impact investments. • 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. • Self-dealing rules apply. • 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.

Considerations	Foundation Type	
	Community Foundations	**Private Foundations**
	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 non-private foundation charities and (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 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[22] to: ○ an organization that is not a public charity; ○ a non-functionally 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).	

Considerations	Foundation Type	
	Community Foundations	Private Foundations
	• Market-rate, mission-related investments (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.	

Expenditure Responsibility[23]

To meet the expenditure responsibility requirements in making a program-related investment, 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. The commitment should specify the purpose of the investment and should contain an agreement by the organization:

1. 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,
2. To 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 it has complied with the terms of the investment,
3. To keep adequate books and records and to make them available to the private foundation at reasonable times, and
4. Not to 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 2010).

Appendix F
The Impact Investing Ecosystem by Institution Type

Banks are the single largest source of financing in the three Northern New England (NNE) states. However, their community development financing is dependent upon Community Development Financial Institutions (CDFIs) and federal and state agencies, which provide structures, deal flow, credit enhancement (protection against loss), and incentives. A description of each institution type and its role in NNE capital markets includes:

- **CDFIs**: Mission-driven financing entities certified by the federal government as having a primary mission of community development and a focus in distressed areas and/or undeserved populations. By definition, CDFIs must combine capacity building services (called development services) with their financing, which assist both individual borrowers or investees (businesses, nonprofit organizations and households) and the community in general to effectively attract and use financing. CDFIs catalyze regional community development in a number of essential ways:
    - Innovation, as a result of continuous market research on how the provision of financing to underserved households, businesses and nonprofit organizations can better meet basic community development needs.
    - Capacity building services to prepare these segments to better manage their existing operations, plan for the future and qualify for financing to execute plans (where appropriate).
    - Ongoing monitoring to assist borrowers and investees in executing their plans, including meeting investment repayment obligations.
    - Product development to create financing vehicles that are properly structured for specific needs in the marketplace. This includes (but is not limited to) such flexibility as: predevelopment financing that enables nonprofit organizations to undertake early steps in considering a real estate project in order to determine its feasibility (such as seeking site control, environmental testing, architectural plans); lease-to-own financing for households who cannot afford downpayments; cooperative loans for resident ownership of manufactured housing parks; seasonal features of agricultural loans; small loans for farmers to make safety and other improvements to their farms to promote “agritourism,” and structuring business loans to repay as the borrower meets sales targets.
    - Providing early stage financing that prepares projects and organizations to qualify for larger amounts of financing from conventional sources.
    - Serving as aggregators for capital from regional and national, mission-driven impact investors and public agencies who want to back the types of community development and financing that CDFIs carry out. This includes attracting significant allocations of certain federal tax credits, including New Markets Tax Credits (NMTC), Low Income Housing Tax Credits (LIHTC) and Historic Tax Credits.
    - Leveraging conventional capital from banks, insurance companies and others through leading financings in which the CDFI takes higher risk positions that provide credit enhancement to the conventional, “senior” lenders. In these so-called “capital stacks” the CDFI is often leveraged at least 3:1.

- Reporting on the social and environmental outputs and outcomes from their financing.
- Advocating for effective government policy, based upon their analyses of local needs and their track records of successful financing in sectors that conventional capital markets may consider too risky.

CDFIs emphasize that they are only able to aggregate outside capital to the extent that their balance sheets are strong. Foundation grants and subordinated, concessionary loans (program-related investments or PRIs in the private foundation lexicon) are critical to these entities having sufficient net assets to leverage conventional capital and execute financings at scale.

NNE is home to several of the nation's oldest and/or best regarded CDFIs. These include Coastal Enterprises, the Community Loan Fund (formerly, New Hampshire Community Loan Fund), ROC USA (a newer but highly innovative initiative spun out of the Community Loan Fund to finance resident-owned cooperative manufactured housing parks nationally), the Vermont Community Loan Fund, and Opportunities Credit Union (Vermont). However, there are a number of other CDFIs making important contributions in each state. These may focus in particular regions, such as the island and Native American reservation lending programs of Maine's Genesis Fund and Four Directions Development Corporation, respectively, or the small business lending programs of Community Concepts throughout Vermont.

In addition, regional and national CDFIs and similar entities that are not based in NNE states are active and would like to be more active in the region. These include but are not limited to the Cooperative Fund of New England, NCB Capital Impact, Nonprofit Finance Fund, and The Carrot Project.

Despite their strengths, the CDFIs are not equipped to respond to the full spectrum of regional financing needs. Constraints include mission (low-income focus can create tension with small business growth plans), capital structure (mostly debt versus equity, and certain types of capital such as that linked to New Markets Tax Credits necessitate very large transaction sizes), and historical focus / expertise. CDFI expertise is well matched to current activities, and the sector has a good track record of building skills to respond to emerging financing niches. Ongoing skill building will likely be needed to respond to the range of regional sustainable development financing opportunities. While CDFIs are a collegial group by and large, there are opportunities for more strategic coordination of their efforts within the region, including through potential replication and/or co-sponsorship of successful financing models across CDFIs and state lines. Coastal Enterprises, ROC USA and The Carrot Project are beginning to model this approach through their NMTC, manufactured housing and agricultural microlending strategies, respectively.

- **Sustainable Real Estate**: This refers to mission-driven funds such as Lyme Timber or Maine Farmland Trust that are not CDFIs and focus specifically on purchases or financings of forest, farm and fishing land or rights.

- **Regional Venture Funds & Angels**: These actors, including regionally- and state-focused funds and angels (private individuals of means), provide equity and near-equity investments to emerging businesses with growth potential. They are essential to spurring the growth of locally-based firms with potential to both re-shape local and

regional economies (introducing value chains that can drive wealth creation long into the future) and create jobs.

Given the speculative nature of venture investments, funds and angels expect to lose approximately one-third of their original investments, break-even or achieve return of principal on a third and make significant gains on a third. To hedge risk, they typically make their investments in stages, beginning with very small amounts and adding "follow-on" investments only when firms are meeting milestones or appear likely to do so with a capital infusion.

The amount of venture capital available for rural investments including in NNE has always been very small. That amount dwindled to almost nothing in the Great Recession. Angel investors retreated, and funds found it difficult to raise capital. In spite of these constraints, there are a few active funds for early stage firms. These include the Vermont Sustainable Jobs Fund, Small Enterprise Growth Fund (Maine), Maine Technology Center and Granite Fund (New Hampshire). CEI Ventures serves the region. Fresh Tracks Capital (headquartered in Vermont) and Borealis Ventures (headquartered in NH) target later stage firms in the region, and a couple of other funds are in organization.

New Hampshire benefits from two innovative initiatives to capitalize growth businesses: Vested for Growth (VfG) is a near-equity lending program of the New Hampshire Community Loan Fund that provides royalty-based financing to small businesses (repayment as a percentage of sales). For almost a decade, VfG has helped to fill a financing gap for businesses that are growing but may be unable to attract bank loans due to lack of collateral or recent losses. The royalty structure is attractive to entrepreneurs who may not want to give up an ownership stake in their business to equity investors who may exert control and eventually sell and/or relocate the firm. VfG is launching a more diversified small business lending program to fill a gap for small businesses seeking $50,000 - $2,000,000 in regular term debt or lines of credit that are currently unavailable from local banks to all but the very lowest risk borrowers.

More recently, New Hampshire's state legislature passed HB605, a law authorizing the Business Finance Authority to establish a New Hampshire innovation business job growth program. The legislation provides the guarantee for downside risk on equity investments in state-based firms. (New Hampshire Charitable Foundation is taking advantage of this opportunity through a recent investment in New Hampshire's Granite Fund.)

- **Banks.** As in any economy, Northern New England banks are a linchpin. They are actively involved in community lending and some are "thought partners" to impact investing strategies that stabilize and advance the region. For example, Bangor Savings Bank has long supported Maine CDFIs and has crafted programs to administer modest amounts of PRI funds on behalf of foundations (the design for which the bank is pleased to share with others). Skowhegan Savings Bank is represented on Maine Community Foundation's board, and is involved in thinking about how the state's various financing sources can best work together. At the same time, credit regimes have tightened after the Great Recession, particularly among the nation's larger banks that serve Northern New England. This means that the amounts and terms of financing are generally less favorable.

Bank lending in distressed areas is prompted by federal regulation. FDIC-insured depositories (including commercial and savings banks) have an obligation under the 1977 federal Community Reinvestment Act (CRA) to help meet the credit needs of the communities in which they operate, including low-to moderate income areas.[24] Under CRA, most banks are subjected to Performance Evaluations based upon three tests: the Investment Test, Lending Test and Services Test.

Partnering with CDFIs is one of the primary ways that banks fulfill CRA obligations for all of the tests. Partnerships typically take the form of:

- Providing loans to the CDFIs that serve as "loan capital" (similar to a foundation PRI loan, though generally on less favorable terms; as noted, foundations provide much of the grant and subordinated debt that allows CDFIs to attract bank and other senior debt). CDFIs relend bank capital in distressed portions of the bank's service area. As with geographically-targeted grant programs, the targeting can limit the scope of impact; state-based banks typically operate state-based CRA programs.
- Providing equity and debt in NMTC and LIHTC transactions. This often accounts for the largest share of bank CRA lending, and these transactions attract large national bank investors.
- Providing senior (low-risk) debt in other economic or community development projects for which CDFIs provide the subordinated (junior or higher risk) layers in a capital stack and/or public or private entities provide guarantees.
- Providing "take out" or refinancing of projects for which CDFIs provide the much riskier, earlier phases of project finance.
- Investing in Small Business Investment Corporations (SBICs), specialized, SBA-sponsored small business lending and/or near-equity investing entities that may be certified as CDFIs.
- Buying fixed-income securities (bonds) that are backed by loans originated in low-to-moderate income communities and/or tied to local economic development. These bonds serve as a secondary market (refinancing source) for the original lenders, providing cash to originate new loans.
- Making grants to support technical assistance, particularly related to financial literacy, affordable housing and/or small business development.

Credit enhancement is a critical underpinning for bank performance on the Lending Test. This protection against loss may come in the form of tax credits, government or private loan guarantees and/or subordinated positions taken by mission-driven lenders such as CDFIs or foundations. In assessing NNE regional bank financing, preliminary data suggest that a majority—approximately $900 million or 56 percent of the estimated $1.6 billion in bank financing in the region—benefits from NMTC or LIHTC, which provide significant project equity or cushions against loss.[25]

Other bank financings will generally carry guarantees and/or insurance from federal agencies such as the Small Business Administration, U.S. Department of Agriculture, Federal Housing Authority, Health Resources and Services Administration (for health clinics), and Bureau of Indian Affairs, as well as from state agencies (the Finance Authority of Maine provided some $40 million in small business loan guarantees in 2010). In addition, banks receive various support for community lending from the Federal Home Loan

Bank, a regional system of banker's banks that is cooperatively owned by its member institutions.[26]

To comply with the Investment Test, banks typically purchase NMTC or LIHTC tax credits; purchase fixed-income securities that are based upon loans originated in low-to-moderate income communities within the bank's service area; place deposits in CDFI banks and credit unions; and/or make flexible investments in CDFIs, SBICs and similar entities. Bank grants can also qualify as investments for purposes of the CRA Investment Test.

To comply with the Services Test, banks may maintain or open branches and/or ATMs serving low-to moderate Income communities and/or may make grants to organizations that do so (such as the Vermont CDFI credit union, Opportunities Credit Union) or that provide financial education to community residents.

While the level of NNE bank lending and investing is substantial, the assessment found that significant further lending is possible.[27] As described above, however, mobilizing this financing requires the supportive infrastructure of CDFIs and other capacity building partners, which, in turn, require foundation grants and investments.

- **Other Private Investors**. A range of other private investors represent current or potential sources of capital in the region, including faith-based investors; nonprofit health systems; and regional corporate and university anchors.[28]

- **State Agencies**. Northern New England's state housing and economic finance agencies provide a range of support for their jurisdictions. In addition to issuing bonds for traditional purposes such as education and hospitals, these agencies may provide modest amounts of loan insurance and small but targeted direct lending.

Each state has enacted novel provisions or initiatives to promote community investing. These include but are not limited to:

  - **Maine**: Bonds to support affordable housing including on the islands, and to support venture capital investing ($5 million that was distributed to three regional funds in approximately 2003). Individual taxpayers in Maine who contribute to matched savings programs for low-income families may be eligible for a state tax credit.[29]

  - **New Hampshire**: The state's Community Development Finance Agency (CDFA) Tax Credit Program, also known as the Community Development Investment Program (CDIP), enables businesses to invest cash, securities, or real property to fund CDFA-approved projects in exchange for a 75 percent state tax credit. [30] As noted, the state legislature recently passed HB605, a law authorizing the Business Finance Authority to establish a New Hampshire innovation business job growth program.

  - **Vermont**: The Vermont Charitable Housing Tax Credit awards a tax credit to investors who invest in affordable housing under a current threshold interest rate of 1.25%. The tax credit is equal to the difference between the investor's rate and 1.25%.[31] In 2009, the Vermont Legislature approved the Farm to Plate (F2P) initiative under the state's 2010 jobs bills. F2P tasked the Vermont Sustainable Jobs Fund (VSJF) with creating a 10-year strategic plan to strengthen and expand the state's food system. The VSJF plan's 33 goals and 60

strategies aim to create new jobs, increase market share, and improve environmental and economic health in the state's agriculture sector, with the benchmark that a 5 percent increase in overall food system production in Vermont should generate 1,500 jobs over a decade and an $88 million annual increase in the state's gross domestic product.[32]

While limited to individual state jurisdictions, these structures are important for two reasons. First, they illustrate progressive state financing environments, which may support significant additional innovation in regional impact investing. In the limited direct research of state financing initiatives that was possible as part of NNE community foundation research, it appeared that the states would be willing to enter into discussions about their role in multi-state investing initiatives. Second, the tax incentives are competitive factors that community foundations will need to take into account as they design donor advised fund impact investing products and marketing strategies. (The scope of project research did not review county and/or municipal agencies that may offer additional helpful services; it did review Small Business Administration services, described below.)

- **Capacity Building Services (Technical Assistance)**. As noted above, many financial institutions combine capacity building services with financing. A range of independent capacity building organizations and initiatives provide further support for emerging businesses throughout the region. There are also capacity building services for nonprofit organizations such as Common Good Ventures in Maine, although at the time of original project research, these appeared to be not as well developed or promoted in the region generally (Maine Community Foundation's impact investing strategy includes resources to expand available capacity building services for its potential investees in partnership with Common Good Ventures). Finally, there are capacity building services for households, which focus on family economic security including budgeting, homeownership training and foreclosure prevention.

  Capacity building services for small firms are the most robust. Long before CDFIs were invented, angel investors and, later, venture funds, developed a practice of providing management capacity building services along with their investment capital. The guidance that these actors provide as board members and mentors to their portfolio companies in NNE is complemented by a range of university-based R&D and business incubation projects in each state, independent business incubators and initiatives, SBA-sponsored management guidance in that agency's Small Business Development Centers and through its retired business executive advisor program (SCORE), and independent consultants.

  While extensive, such services are not always well networked and/or utilized. For example, the Maine Technology Center's excellent report to promote the development of state and regional business innovation clusters observes that business development activities are often not well networked, even within the same state. Local research suggested that the intensive, strategic guidance available for specific sectors—whether farm, fish, food, forest or others—remains siloed. Finally, practitioners reported that individual entrepreneurs are often unaware of available capacity building services and/or do not understand the value of these services to them.

Appendix G
The Vermont Community Foundation Investment Policy

I. Vermont Investments

The Vermont Community Foundation (VCF) Board requires that five percent of the VCF's pooled assets be invested in "Vermont Investments" - investments in Vermont companies, agencies, or intermediaries that support and promote healthy and vital Vermont communities, as outlined in the VCF's Ends Policy. With our Vermont Investments, we seek:

- new kinds of leverage that direct investments in communities can make – jobs, housing, economic development and financial services for low-income Vermonters
- opportunities that create impact now and in the future
- high social return on these investments as well as an investment return
- ways to act as a partner and promoter of Vermont Investments in order to engage other Vermont institutions.

Currently our Vermont Investments are divided among three categories of investments:

46% Community Investments
40% Community Directed Bond Portfolio
14% Venture Capital

II. Community Investments

The VCF selected the Calvert Foundation to recommend investments, provide due diligence and administer the community investments portfolio. The aim of these investments is to maximize overall social impact in Vermont communities most in need while maintaining a moderate risk profile. The underlying intent is to minimize loss and preserve capital. The benchmark for the Community Investments is the Citigroup 1 Year Treasury Index. The investment time horizon is a three-year term on average.

Asset Allocation:
The community investments portfolio should consist of 40-70% in loans to Community Development Financial Institutions (CDFIs) and like institutions, with the remaining 30-60% in Certificates of Deposit with community and/or CDFI banks and credit unions. The mix of investments should reflect a diversity of geographic and investment types.

Considerations for the CDFI (and like institutions) Loans:

- Seek to support all credit worthy CDFI's in the state;
- Seek full investment positions* based on the financial strength of the organization, the size of the organization and the total size of the VCF's Vermont Investments;
- Seek geographic diversity;
- Seek to support various community-defined objectives;
- Seek to support out-of-state organizations that have Vermont-based programs.

Considerations for CDs with community banks and CDFI banks and credit unions:

- Invest up to but not above the $250,000 federally insured range;
- Support Vermont based CDFI banks and credit unions;
- Focus on entities that target low- to moderate-income residents and geographic regions;
- Invest only in banks that have "Outstanding" Community Reinvestment Act ratings;
- Invest in entities whose lending activity demonstrates a significant commitment to the communities they serve;
- Select entities that provide geographic diversity for the whole portfolio.

III. Community Directed Bond Portfolio

The VCF invests this portion of the portfolio with Access Capital Strategies Community Investment Fund. The benchmark for the Community Directed Bond Portfolio is 80% Merrill Lynch Mortgage Master/ 20% Merrill Lynch US Treasury 1-10 Year Index.

Asset Allocation:

- Seek 65-75% of the investment for loans originating outside the traditional banking sector. Seek to be a source of liquidity for originations from revolving loan funds, community development corporations and other community-based organizations in Vermont;
- Seek 25-35% of the investment for loans originating from the most aggressive and borrower friendly community lending programs in the state including the highest impact Community Reinvestment Act programs.

Considerations:

All loans purchased should be loans originated from families with incomes 80% or less than the HUD area median income (the Federal definition of low-and moderate-income) or multifamily loans for affordable rental housing.

IV. Venture Capital

The VCF invests in venture capital firms focused upon Vermont. The benchmark for the Venture Capital segment of the portfolio is Venture Economics Private Equity Performance Database, based on timeframes of seven years or longer.

Considerations:

- Consider all opportunities for investing in professionally managed venture capital funds focused, at least in part, on Vermont;
- Require at least one investment be made in Vermont of an amount greater than or equal to the VCF's investment in the respective venture capital fund;
- Seek funds that provide diversification or support our existing portfolio of investments;
- Seek funds managed by experienced organizations and individuals whom the Foundation believes have the ability and resources to invest successfully.

* Full investment position means no more than 10% of the Foundation's target to Vermont Investments will be placed with a single issuer. If an investment of greater than 10% is desired, staff will only act with the support of the Investment Committee.

Appendix H
Resources

Community Foundation and Rural Impact Investing

Bernholz, Lucy and Richter, Lisa, Equity Advancing Equity, www.communityphilanthropy.org (includes profiles of many community foundation impact investments by asset class, as well as a glossary of impact investing terms)

Foundation Center, Key Facts on Mission Investing, 2011. http://foundationcenter.org/gainknowledge/research/pdf/keyfacts_missioninvesting2011.pdf

Lawrence, Steven, Foundation Center, Doing Good with Foundation Assets: An Updated Look at Program-Related Investing, 2010. http://foundationcenter.org/gainknowledge/research/pdf/pri_directory_excerpt.pdf

Kelly, Marjorie with Norwood, Jessica, Impact Investing for Rural Wealth Creation, A report for the Wealth Creation in Rural Communities project of the Ford Foundation, Tellus Institute, 2010. www.yellowwood.org/ImpactInvestingKellyNorwood.pdf

Wood, David, Rural Mission Investing: The Role of Foundations in Catalyzing Rural Mission Investment, Initiative for Responsible Investment, 2011, http://hausercenter.org/iri/wp-content/uploads/2010/05/Rural-Mission-Investing.pdf

Social Impact Dashboards

KL Felicitas Foundation
http://www.klfelicitasfoundation.org/index.php/impact_investing/our_impact/
http://www.klfelicitasfoundation.org/images/files/KLF_Evaluator_Primer_June_2011.pdf

Positioning Donor Advised Fund Investment Options

Community Foundations:

The Greater Cincinnati Foundation
http://www.gcfdn.org/CommunityLeadership/ImpactInvesting/tabid/368/Default.aspx

Marin Community Foundation
http://www.marincf.org/giving/donors/impactinvesting

Minnesota Initiative Foundations
These six community foundations work to strengthen the communities and economies of Greater Minnesota. Each is independent and serves its region with unique grants, business loans, leadership programs and donor services. http://www.greaterminnesota.net

Orange County Community Foundation
http://www.ocfunders.org/2013summit/Program%20Related%20Invesmtns%20(PRIs)%20and%20Social%20Investing.pdf

The Seattle Foundation
http://www.seattlefoundation.org/getinvolved/specialprograms/Pages/MissionInvestment.aspx?bv=nposearch

Positioning Donor Advised Fund Investment Options, continued

Global and National Funds and Research:

Impact Assets (former Calvert Giving Fund)
RSF Social Finance
Money For Good
Hope Consulting, Money For Good: The US Market for Impact Investments and Charitable Gifts from Individual Donors and Investors, 2010

Nonprofit Securities Regulations and Terms

Horner, Timothy L, Socially Responsible Investors: Navigating the Legal Requirements, 2012 presentation at the Opportunity Finance Network national conference.

Horner, Timothy L. and Makens, Hugh H., Securities Regulation of Fundraising Activities of Religious and Other Nonprofit Organizations, 1996,

Humann, Kirstin L., National Charitable Giving Counsel, Legal Issues in Fundraising Management, Humann and American Corporate Counsel Association, 2001.

North American Securities Administrators Association (list of State Commissioners)

U.S. Securities and Exchange Commission Glossary of Investment Terms

Rural Communities

Johnson, Kenneth M., Rural Demographic Change in the New Century, Slower Growth, Increased Diversity, , The Carsey Institute, Issue Brief No. 44, Winter 2012.

Stauber, Karl, Why Invest in Rural America—And How? A Critical Public Policy Question for the 21st Century, Federal Reserve Bank of Kansas City.

Duncan, Cynthia M. Community Development in Rural America: Collaborative, Regional, and Comprehensive, Investing in What Works for America's Communities, 2012.

Associations

Council on Foundations, http://www.cof.org
Global Impact Investing Network, http://www.thegiin.org
Mission Investors Exchange, https://www.missioninvestors.org

Endnotes

[1] The Northern New England Community Foundations retained GPS Capital Partners and The Philanthropic Initiative to support all asects of Phase I and II effort. GPS and TPI collaborate in supporting the community foundation sector to learn about and implement impact investing. GPS is a national leader in the design and execution of foundation impact investing strategies across investment themes, asset classes and expected return levels (www.gpscapitalpartners.com). TPI is a national leader in supporting philanthropic strategy generally, including community foundation learning action networks (www.tpi.org).

[2] Johnson, Kenneth M., Rural Demographic Change in the New Century, Slower Growth, Increased Diversity, Carsey Institute, Issue Brief No. 44, Winter 2012. http://www.carseyinstitute.unh.edu/publications/IB-Johnson-Rural-Demographic-Trends.pdf

[3] Stauber, Karl, Why Invest in Rural America—And How? A Critical Public Policy Question for the 21st Century, Federal Reserve Bank of Kansas City, kansascityfed.com/Publicat/Econrev/PDF/2q01stau.pdf. Stauber is president and CEO of the Danville Regional Foundation and former Under Secretary for Research, Education and Economics with the US Department of Agriculture and Deputy Undersecretary for Policy and Planning, Small Community and Rural Development.

[4] In her article, Community Development in Rural America: Collaborative, Regional, and Comprehensive, Cynthia M. Duncan emphasizes that "Far and away the biggest challenge rural development practitioners face is the need for greater human capital—for more leaders, more entrepreneurs, more skilled workers, and even more economic development professionals to work in their own organizations. Because leaders in rural communities play multiple roles, the loss of one "spark plug" can devastate a small community. The crunch for people also means that organizational capacity is often thin. There are fewer banks and fewer specialized lenders in those banks. Equally important, there are few, if any, corporate partners. Moreover, community development practitioners often must help local leaders move from the old, more stable economy they once relied on to new, more dynamic and less predictable economies of the future." http://www.whatworksforamerica.org/ideas/community-development-in-rural-america-collaborative-regional-and-comprehensive/#.UfnRDxbYNfQ

[5] U.S. Census, 2010-11, http://www.census.gov/hhes/www/poverty/data/incpovhlth/2011/tables.html

[6] For information on the financial performance of the social investing field generally, see http://fsinsight.org.

[7] The program-related investing (PRI) regulations further specify that qualifying PRIs can count toward a private foundation's charitable distribution requirement and are safeguarded from the private foundation jeopardizing investment rules. In addition, private foundations can invest PRIs in for-profit entities, provided that the use of proceeds is charitable. In this case, they must exercise Expenditure Responsibility evidencing pre-investment due diligence that documents the charitable use of process, as well as annual reporting during the life of the investment to ensure ongoing charitability. The IRS provides no special regulations pertaining to impact investments that seek an expected market rate of return. Such investments are subject to the same regulations that would apply to any endowment asset. For private foundations, therefore, market-rate impact investments are subject to jeopardizing investment and other "prudent person" rules. This makes it essential that the foundation use the same care and diligence in evaluating and documenting market-rate impact investments as it would for any endowment asset. Attorneys who specialize in foundation impact investing suggest that the due diligence for market-rate impact investments also document any intended mission benefits.

[8] Kelly, Marjorie with Norwood, Jessica, Impact Investing for Rural Wealth Creation; Investing for financial returns and community impact. Tellus Institute, November 2010. www.yellowwood.org/ImpactInvestingKellyNorwood.pdf

[9] Latent demand for financing refers to demand from organizations, entrepreneurs and households that may not currently be seeking financing but whose use of safe, non-predatory financing might benefit both them and their communities. Latent demand can be estimated by extrapolating from reports of financings that spark new economic activity in one community (but may not yet be replicated in others), as well as reports of deferred financing in such sectors as affordable housing and nonprofit organizations.

[10] Interview with Capital Link reported inGrantmakers In Health Guide to Impact Investing, http://www.gih.org/usr_doc/GIH_Guide_to_Impact_Investing_FINAL_May_2011.pdf

[11] These findings are based in part upon interviews by GPS Capital Partners with attorneys Timothy L. Horner, Partner, and Daniel C. Persinger, Partner, Warner Norcross & Judd LLP of Grand Rapids, MI, on December 6, 2012 and August 16, 2013, respectively, as well as a review of articles and presentations by Mr. Horner, including Horner, Timothy L, Socially Responsible Investors: Navigating the Legal Requirements, and Mr. Horner's 2012 presentation at the Opportunity Finance Network national conference, http://www.opportunityfinance.net/public/files/TricksTrapsppt.pdf.

[12] On July 10, 2013, the Securities and Exchange Commission adopted a new rule to implement a Jumpstart Our Business Startups Act (JOBS Act) requirement to lift the ban on general solicitation or general advertising for certain private securities offerings. See http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370539707782#.Ug4x-9LVBZs.

[13] Among the exemptions from registration under the Securities Act of 1933 are private placements, which the Securities and Exchange Commission describes as follows: "Section 4(a)(2) of the Securities Act exempts from registration "transactions by an issuer not involving any public offering." To qualify for this exemption, which is sometimes referred to as the "private placement" exemption, the purchasers of the securities must: either have enough knowledge and experience in finance and business matters to be "sophisticated investors" (able to evaluate the risks and merits of the investment), or be able to bear the investment's economic risk; have access to the type of information normally provided in a prospectus for a registered securities offering; and agree not to resell or distribute the securities to the public. In general, public advertising of the offering, and general solicitation of investors, is incompatible with the non-public offering exemption." http://www.sec.gov/info/smallbus/qasbsec.htm.

[14] The federal securities laws define the term accredited investor in Rule 501 of Regulation D as: a bank, insurance company, registered investment company, business development company, or small business investment company; an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of $5 million; a charitable organization, corporation, or partnership with assets exceeding $5 million; a director, executive officer, or general partner of the company selling the securities; a business in which all the equity owners are accredited investors; a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase, excluding the value of the primary residence of such person; a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or a trust with assets in excess of $5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes. Under the Securities Act of 1933, a company that offers or sells its securities must register the securities with the SEC or find an exemption from the registration requirements. The Act provides companies with a number of exemptions. For some of the exemptions, such as rules 505 and 506 of Regulation D, a company may sell its securities to what are known as "accredited investors." See http://www.sec.gov/answers/accred.htm.

[15] At least eight states opted out of the Philanthropic Protection Act of 1995 (PPA), including Arkansas, Connecticut, Florida, Mississippi, Tennessee, Nebraska, Vermont, and Virginia. Other states may have provisions that require special care. In states that have opted out of the PPA, there may be requirements for a charitable issuer of securities to prepare a prospectus, registrater as an issuer of securities, and license the organization and its staff as broker/dealers. Failure to comply with these laws can result in criminal and civil penalties. See Humann, Kirstin L., National Charitable Giving Counsel, Legal Issues in Fundraising Management, Humann and American Corporate Counsel Assocation, 2001.

[16] Adapted from Richter, Lisa, Grantmakers In Health Guide to Impact Investing, Grantmakers In Health 2011, http://www.gih.org/usr_doc/GIH_Guide_to_Impact_Investing_FINAL_May_2011.pdf

[17] Types of private foundations include independent, which generally are governed by an independent board and not controlled by a donor, donor's family, or corporation; family, in which the donor or donor's relatives have a significant governing role; and corporate—a legally separate but company-sponsored foundation. The vast majority are private, nonoperating (grantmaking) foundations; private operating foundations use most of their resources to directly run rather than grant to charitable programs.

[18] If an investment did not qualify as charitable, it could be deemed a 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 2009).

[19] 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.
[20] 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.
[21] Kramer, Mark and Stetson, Anne, Risk, Return and Social Impact: Demystifying the Law of Mission Investing by U.S. Foundations, FSG Social Impact Advisors, 2008, http://www.fsg.org/Portals/0/Uploads/Documents/PDF/The_Law_and_Mission_Related_Investing_Full.pdf?cpgn=WP%20DL%20-%20The%20Law%20and%20Mission%20Related%20Investing%20FULL
[22] The taxable distributions from a donor-advised fund include any distribution made to an individual and any distribution made for noncharitable purposes.
[23] http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Terms-of-Program-Related-Investments:-Private-Foundation-Expenditure-Responsibility
[24] http://www.ffiec.gov/cra/
[25] This estimated proportion refers to aggregate bank lending, which includes large national banks that favor New Markets Tax Credit and Low Income Housing Tax Credit transactions. Community banks likely have higher proportions of direct small business, affordable housing and nonprofit loans.
[26] Phase I research did not examine the full role of support for regional financing that is supplied through this channel.
[27] This impression is based upon a very preliminary review of publicly available bank data from which it appears that aggregate bank Community Reinvestment Act investing across the three-state region could be more robust in comparison to national peers. Given the relatively sparse deal flow that often characterizes rural areas, a concerted strategy including foundation and CDFI partnerships would likely be needed to significantly elevate current bank lending levels.
[28] In Northern New England and elsewhere, faith-based investors provide early stage and patient capital to CDFIs and nonprofit organizations; nonprofit health systems may make community investments in conjunction with their community benefit obligations, including Communithy Health Needs Assessments and Implementation Strategies; and corporate and university anchors may engage in regional community investing as part of corporate social responsibility, “collective impact” and/or “creating shared value” strategies.
[29] http://www.ceimaine.org/Default.aspx?pageId=784488
[30] New Hampshire’s Community Development Finance Agency credit can be applied against the New Hampshire business profits, business enterprise, and insurance premium taxes. The organizations that are awarded state tax credits are responsible for raising donations in the amount of their tax credit award from for-profit businesses that have a New Hampshire state tax liability. CDFA issues up to $5 million in New Hampshire business tax credits each fiscal year; due to rollovers and other obligations there was just under $8 million total available for FY12 & FY 13.
http://www.nhcdfa.org/web/pressreleases.html?action=single&release_id=123
[31] http://www.investinvermont.org/tax-benefits
[32] Lee, Marissa, Vermont ‘Farm to Plate’ to Create Jobs and Strengthen Local Food System, August 11, 2011, http://seedstock.com/2011/08/11/vermont-farm-to-plate-local-food-system