

EQUITY ADVANCING EQUITY



How Community Philanthropy Can Build Racial and Social Equity through Mission Investing

Putting investment portfolios to work for the greater good can unlock opportunity in marginalized communities, especially those with substantial minority or low-income populations. *Equity Advancing Equity* frames some of the possibilities for the growing practice of mission investing and captures the momentum of a dozen community foundations that are leading the way.

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All statements and conclusions are our own unless specifically attributed to another source and do not necessarily reflect the views of the foundations profiled in the study, our funders or members of our advisory board.

Lucy Bernholz
Lisa Richter
September 2009

“With over \$600 billion in the endowments of U.S. private foundations, it is logical to consider how these funds can be put to use beyond generating income for grantmaking and begin to be a catalyst for social change via investments in market-driven entities.”

— Philanthropy’s New Passing Gear: Mission Related Investing¹

“. . . By adopting a social justice lens on some of their ongoing work in grantmaking, asset development and community leadership, many community foundations are aiming at solving basic problems rather than treating their symptoms over and over again.”

— Community Foundations of Canada, Strategies for Social Justice and Discussion Guide²

INTRODUCTION: FRAMING MISSION INVESTING AND SOCIAL EQUITY

Equity. To some, a single word that describes a concept of fairness that is inarguable and seemingly unachievable. To others, a basic financial concept. This paper brings together two ostensibly disparate definitions of equity—one that relates to the distribution of resources across economic and racial groups and another that looks at capital market concepts and processes—and places them in a single frame for consideration.

The link is not new. More than 40 years of experience with program-related investing (PRI), Community Development Financial Institutions (CDFIs) and the Community Reinvestment Act (CRA) have sought to provide greater access to equity, credit and asset development in excluded communities (see Appendix A for a summary of mission investment terminology). These efforts have built upon a much longer history of minority and rural entrepreneurship within these communities, despite severe capital constraints. While the current economic crisis threatens to undo much of what has been accomplished, it also offers tremendous potential to re-commit to the core connections between access to financial capital and access to a more equitable society.

The pursuit of financial and social equity through mission investing—making investments that offer a financial return while advancing an organization’s charitable mission—offers a tested, additional means for community foundations to protect local assets for the long term and catalyze resources from a community on behalf of a community. The benefits include recycling philanthropic capital, engaging the energy and scope of capital markets to achieve social good, and bringing foundations’ investment activities into better alignment with their stated missions.

Not every community foundation is focused on issues of equity, nor is every foundation a likely practitioner of mission investing. However, all community foundations in the United States are operating in competitive and crowded landscapes of philanthropy vendors, and hundreds of them have been engaged in the work described in the 2005 report, *On the Brink of New Promise: The Future of U.S. Community Foundations*. Drawing from the hands-on experiences of American community foundations, that report articulated three distinct and interrelated principles for community foundation success in the 21st century:

- Focusing on community effectiveness;
- Demonstrating long-term community leadership; and
- Looking to make coordinated impact.

This report builds on those principles and the subsequent series of Future Matters reports, especially the Spring 2007 issue, *Reframing Endowment as a Tool for Community Leadership*.³ It reveals strategies that community foundations are already using to demonstrate their value as creative, effective and committed philanthropic partners. This value relies on foundations’ commitments to community leadership for the long term, which in the arena of successful mission investing strategy depends on leaders from different parts of the community working together. They have the opportunity to change the conversation from short-term grantmaking to poor parts of a community to long-term investment strategies that strengthen business opportunities, home ownership, education and wealth creation for the betterment of all. It is in this spirit that interest in mission investing is moving from the margins to the middle of community foundation strategic discussions and opportunities.

Community foundations of all sizes, in rural and urban settings, representing some of the oldest and youngest of the nation's community endowments and philanthropists, are deploying their endowed assets in line with their missions. This paper looks at several of those examples, shows how, why and to what end these efforts have been undertaken, and seeks to articulate a clear set of options for others who might set down similar paths. It tells the stories of local funders that are using mission investing tools to address core issues of social equity. We provide frameworks for considering the issues of social and racial justice and mission investing, with the intention that both community foundations and other philanthropy organizations will assess these possibilities in their communities. Finally, we provide resource links and other materials to help those interested in the work to take whatever next step is appropriate for them.

Equity Advancing Equity is divided into three main sections. The first presents a pragmatic frame that ties together mission investing and social justice. It outlines three intersecting spheres—place, race and space—that distinguish community foundations' focus in the marketplace of philanthropic options and shows how mission investing with the intent of building long-term social equity advances the work

in each of those spheres. The second section more closely examines opportunities and challenges of mission investing for community foundations. It draws from the extensive work of independent foundations and addresses the unique issues that community foundations face. The third section features stories—real-world examples—of community foundation investment strategies that are producing long-term social change in communities while also meeting established financial goals. Readers may choose to start at the beginning or jump to the stories.

A note of caution: Both mission investing and the active pursuit of social equity require commitment, skills, metrics, vision and partners. They represent values and opportunities that are available to all who seek to pursue them. At the same time, they neither are mere buzzwords nor should they be seen as simple solutions. Some foundations are far down the path of deployment and commitment, while others are just beginning to articulate their own values and staging small-scale pilot efforts. There is no single answer. This report aims to emphasize that there are available partners in this work, lessons that have been learned, peers to turn to and resources to apply. Momentum is building, and there are successes to celebrate. There is also much to be done.

COMMUNITY FOUNDATIONS AND PHILANTHROPY

As described in *On the Brink of New Promise*, community philanthropy is as old as human civilization. Over the last century, its long-standing functions—mutual assistance and shared responsibility—have not changed. However, the number and types of institutions that provide these functions and the scale of the resources involved have grown exponentially. Community philanthropy organizations now number in the thousands, manage billions of dollars, and regularly act in the public eye and on the public's behalf.

This report focuses primarily on the approximately 700 community foundations with some \$50 billion in assets under management in the United States,⁴ whose place-based focus, public support and stewardship of diverse donor, supporting, agency and unrestricted component funds position them to take up unique leadership in the strategic use of mission investing to create more equitable access to opportunity in the communities they serve (see Appendix C for a comparison of community and private foundation structure and mission investing practice).

Most of the report's findings are equally of use to other philanthropy organizations pursuing place-based or social justice missions, such as private foundations (including independent, family, health conversion and corporate foundations), identity-focused funds, United Ways and other federated, commercial, hometown or alternative giving funds that partner and co-invest with community foundations to advance shared goals.

“A racially equitable society would be one in which the distribution of resources, opportunities and burdens was not determined or predictable by race.”

“For grant makers and foundation leaders, using a racial equity lens means paying disciplined attention to race and ethnicity while analyzing problems, looking for solutions and defining success when applying the classic skills of effective grant making.”

— Grant Making with a Racial Equity Lens, 2007 GrantCraft guide⁵

Social equity and racial equity—often considered within a broader concept of social justice—are complicated terms with many definitions. We base our analysis and this report on an understanding that:

- Social equity or social justice depend on all members of a society having fair access to and treatment under the legal, social, economic and political systems and processes; and
- Racial equity and inclusion are core principles of social justice.

Community foundations exercise their commitments to inclusion in many ways. From their founding, they have

been governed by boards meant to be representative of communities. Their selection processes have changed as definitions of representation have evolved and as communities of color and the poor have succeeded in gaining seats at the table. Often these changes come as community foundations seek to address the biggest challenges they see—tackling persistent poverty and dealing honestly with the issues of race and exclusion. They pay attention to diverse voices in setting policy, consider racial and economic disparities in allocating grant funds, and assess their work against indicators that look at specific subsets of the community and the community as a whole.

The initial support for mission investing arose from an aim to be more inclusive on the economic front. Beginning with grants to community loan funds and community development corporations, community foundations have been expanding access to economic assets in low- to moderate-income and minority communities for decades. These efforts occur with the frame of a national dialogue that recognizes the interdependence of communities. There are many efforts to improve the situation of the marginalized as a means of strengthening the whole.

Existing efforts are well intentioned and well informed, but are likely to be under funded. Building a mission investing strategy can advance this commitment to social equity a step further. The potential of mission investing is both financial and social return. The opportunity is to engage and reinforce the efforts of a diversity of local leaders who through entrepreneurial nonprofit and business initiatives are improving the social, economic and environmental health of their region. Often the structure or scale of their efforts does not fit with a grant strategy. Mission investing can provide an expansionary set of tools that by its very nature creates partnership and helps shift the discussion from short-term grantmaking to long-term change.

The intersection of mission investing and social equity will look different in different places. Rural communities are often more racially homogenous than cities, and so their efforts may focus on addressing inequities of economic class.

INVISIBLE INEQUITY

In a society with great aggregate wealth, it can be difficult to see how disparities play out by race and class. A revealing analysis by CFED⁶ of homeownership and income trends between 2004 and 2008 found that:

- Net worth grew for the top 60 percent of households by income, but fell for the bottom 40 percent.
- The racial wealth gap closed slightly, but wide disparities endured. For every \$1 in wealth held by households headed by white adults, African Americans had 10 cents and Latinos had 15 cents.
- Home equity remains by far the largest component of net worth, especially for low-income and minority populations.
- Between 2004 and 2006, median home equity increased overall by 20 percent, but households in the second income quintile from the bottom experienced a 31 percent loss in home equity.
- Since 2006, falling home values and rising foreclosures have eroded recent gains in home equity, with the biggest losses recorded for minority households.

Rural efforts also may reveal lessons about real estate wealth and assets—and financial delivery systems—that are different than their counterparts in more racially diverse and populous communities. In cities, the relationships between race, class and access to quality education, housing, jobs and capital are critical and clearly apparent, with low-income minority communities often demarcated by decades of market and policy marginalization. In rural and urban areas from Boston to Seattle, Cleveland to Marin County or Vermont, community foundations are tracking and using data on how all local populations are faring, in some cases directly applying these data together with the advice of local leaders to inform mission investing strategies.⁹

COMMUNITY LEADERSHIP AND SOCIAL EQUITY

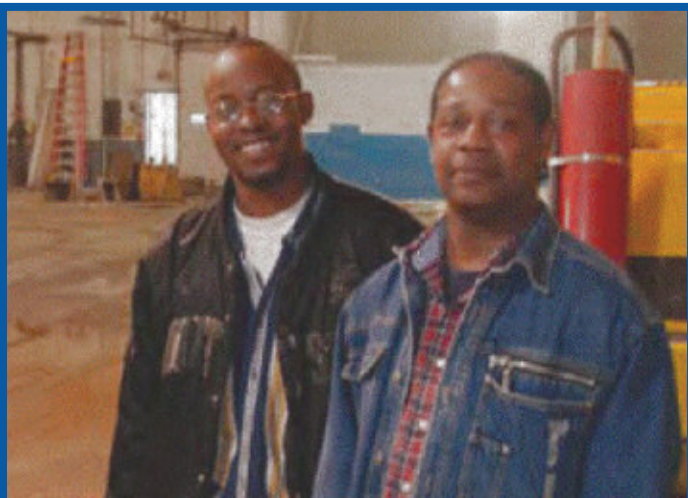
In the last several years, community foundations around the country and around the globe have taken up the call of leadership in their communities. Many of these stories were captured in *On the Brink of New Promise*. The recognition by boards, chief executives and foundation staff that the use of grant funds alone is not enough to make measurable difference is seen in the spreading emphasis on convening, partnerships with government and business, policy engagement, initiative development and, yes, mission investment. We see three clusters of benefit for community foundations represented in these leadership activities, which are reinforced by the links between mission investing and social justice:

COUNTERING DISPARITY

A racially equitable society, according to one widely heard yet never realized definition, “would be one in which the distribution of resources, opportunities and burdens was not determined or predictable by race.” Clearly we are not there yet. Indeed, stark and persistent racial disparities in the United States create conditions in many places where, in the words of Cleveland Foundation president Ronn Richard, the sum is less than the parts. Thankfully, community foundations in urban and rural places are coupling mission investing with other strategies to change this equation—adding value to create inclusive, healthy communities that are more than the sum of their parts.

In Northeast Ohio, the **Fund for our Economic Future**, spearheaded by the Cleveland, Gund and other regional endowments, cites racial inclusion and income equality as critical to achieving regional prosperity.⁷ Economic research found it was the only one of nine factors to have a statistically significant association with all four key measures of regional economic growth—per capita income, employment, gross metropolitan product and productivity. The **Seattle Foundation** has developed a “healthy community framework” to identify patterns of disparity in King County, having found that “behind every ‘average’ measure of community welfare, some people are doing better, and others are doing worse—some much worse.” The foundation complements the framework, which was designed to help donors target their giving, with outreach to help them consider adding mission investing to their philanthropic strategies.

The **Unnatural Causes** project parallels this place-based examination of disparities with a national exploration of racial and socioeconomic inequalities in health. Its seven-part documentary asks, “Is inequality making us sick?” The project has found that the health of a given population is “shaped by the social and economic conditions in which we are born, live and work,” a conclusion that reinforces the importance of investing in healthy communities for all.⁸



(Top) Financing from the Cleveland Foundation and its partners is transforming a vacant building into the Evergreen Cooperative Laundry, a green business that will train local residents to be among the first worker-owners. (Bottom) A loan from the New Hampshire Community Loan Fund's Vested for Growth program allowed Bortech Inc. to preserve manufacturing jobs in the town of Keene.

THE IMPORTANCE OF PLACE

Community foundations are, by and large, defined by and committed to place. Even as they expand their services to donors seeking broader, often global philanthropic impact, a core part of a community foundation's value proposition is its deep and long-lasting understanding of a place. Their local expertise affords them the knowledge of neighborhood and regional disparities, whether defined by race, class or both.

However, while this commitment distinguishes community foundations from their competitors, by itself it is not enough to dramatically improve the state of those places. Nor will a traditional focus on place necessarily equip community foundations with all of the resources they need to achieve their goals. Rather, community foundations understand that they can, and must, more effectively mobilize resources and expertise from the community for the community—both to counter disparities and to realize the potential for strong ties between all of the places and people they serve.

Mission investments at the community level can expand a foundation's capacity for stewardship thus broadly defined, making real the commitment to inclusion and building equity

INVESTING IN A VIBRANT ECONOMY FOR ALL

Among the challenges to achieving inclusive, healthy communities is creating jobs in low-income and minority communities. Community foundations may address this issue through insured deposits in local CDFI banks and credit unions, loans and investments in specialized funds, or direct investment in commercial and business development projects. These initiatives often promote minority business ownership, providing equity and debt where “angel investing” and “blood money” of family and friends are hard to come by. Some 70 percent of CDFI banks and credit unions are minority-owned, and California Public Employees' Retirement System and the California State Teacher Retirement System jointly sponsored an emerging manager database across asset classes that includes diverse managers, many of whom target investments to minority-owned firms or underserved minority communities.¹¹

While success requires fine attunement to market forces, equity investments in minority business development can offer strong financial and social returns. A 2008 study by the Ewing Marion Kauffman Foundation found that although minority-focused venture capital funds were not immune to cyclical returns in the venture sector, the internal rate of return on investments that were initiated after 2001 and were realized by year-end 2006 was 29.1 percent.¹² Since minority-owned firms tend to hire minority employees in far greater proportion than majority-owned firms do, the social returns in terms of community jobs and income can be significant.¹³



The Cleveland Foundation invested in an intermediary, ShoreBank Enterprise Cleveland, to support financing to minority-owned businesses that create jobs in the city's neighborhoods. Larry Fulton (above), the owner and CEO of Lefco Industries, LLC, grew his business from 3 to 17 employees with ShoreBank financing.

in excluded communities. Increasingly, these investments also incorporate environmental criteria that value stewardship of place, “climate equity” and “environmental justice.” In doing so, they seek to link restoration of the earth's resources to local job creation and to mitigate environmental risks that have often gone unattended in places that people of color or with low incomes call home.

THE IMPORTANCE OF RACE

Community foundations derive legitimacy and distinct value in the market through their inclusion, knowledge of and commitment to their community. Credible action on these claims is evident in the widespread efforts by community foundations to reflect the diversity of their local populations. While many have made strides in this regard—and most embrace a vision of diversity that includes faith, income levels, sexual orientation, generation and disability as well as race—most would admit to the ongoing nature of their effort. Often these efforts are reflected in programmatic choices, personnel decisions and board selection procedures.

Mission investing both deepens the need to make these commitments and widens the opportunities for making them. The need grows because meaningful financial and social returns require a depth of community familiarity and expertise that can only come from substantive engagement of local African American, Latino, Asian, Native or other representative local leadership. The opportunity grows through the broadened palette of relationships on which the foundation

draws. There are many opportunities to invest in institutions with strong management, track records and market knowledge that are minority-owned, managed or focused—in urban and increasingly in rural communities. Making these investments work in the long-term requires listening to and partnering with leaders from those institutions now and—as modeled in the W. K. Kellogg Foundation’s mission-driven investment program—specifically advocating for diversity, including racial and gender equity, among investees, investment managers, geographic regions and communities.¹⁰ While community demographics often continue to change, strong leadership typically embraces these changes through further diversification in their institutions’ management, products, services and outreach.

THE IMPORTANCE OF SPACE

Finally, the call to leadership for community foundations means serving not only as the keeper of local assets, but also as a keeper of vision and aspiration for the community. As both cities and rural communities become more diverse, community foundations are extending their reach to ensure that space at the tables of power and opportunity are open to those of all races, income levels and life experience. In complementing this outreach with mission investments, they are expanding and targeting their resources to recharge and diversify the engines of wealth creation, thereby broadening the base of philanthropy for the long haul. While this definition of “space” hinges on the decisions of individual foundations, their actions support community foundations’ collective need to distinguish themselves in the philanthropic market as deploying the range of strategies to most aptly mobilize and build resources in their local communities.



In addition to providing loans to borrowers who cannot obtain financing from conventional sources, Community Development Financial Institutions (CDFIs) promote savings and may combine grants to match customer contributions to Individual Development Accounts (IDAs) that can be used for education, small business or home-purchase expenses. Through the Lakota Tiwahe Family Asset Building Project, Joseph Rosales accumulated the savings to complete a home for his family. Noting that the process of obtaining a home through the tribe can take from 5 to 15 years, Rosales began building his own home. “Everybody should take advantage of this program, so they can be in a home, start their own business—or start school, because once you have an education your chances of obtaining a home or business increase.”

SECTION II: COMMUNITY PHILANTHROPY AND FINANCIAL EQUITY

“In 1968, Foundation staff. . . made the case that the social needs revealed by the turbulent 1960s and subsequent demands on philanthropic resources required extraordinary responses. The urgency and magnitude of the problems confronting America—poverty, racial tensions and preservation of the environment—demanded that the Foundation, any foundation, stretch its assets to reach for real solutions. A paper presented to the trustees urged them to ‘re-examine the tradition that limits our philanthropy to a single mode—the outright grant.’”

— Investing for Social Gain: Reflections on Two Decades of Social Investments, The Ford Foundation, 1991¹⁴

The Spring 2007 Future Matters report, *Reframing Endowment as a Tool for Community Leadership*, made the case that “a community foundation’s contributions to its region should be more than just grants, more than just convening and more than just leadership—it should be all of these things, focused on a long-term vision of a better place.” This section highlights how community foundations can use mission investing to further this vision. Additional profiles, guides and resources appear in the next sections and at www.communityphilanthropy.org.

Mission investments are broadly defined as foundation financial investments made with the intention of (1) furthering a foundation’s mission and (2) recovering the principal invested or earning financial return.¹⁵ They are generally privately held, proactive tools used by foundations to extend impact, recycle philanthropic dollars, promote investee scale and sustainability, harness capital market resources and bring foundation investment strategy into alignment with mission and values. Many foundations use mission investments to deploy a greater share of their resources to advance mission and to ensure that none of those assets are working at cross-purposes with mission and grant strategy. Foundations can further align assets and mission through “active ownership” of traded securities, including shareholder activism (voting proxies or engaging management to encourage social and environmental responsibility) and screening (avoiding holdings in companies whose practices are objectionable or seeking holdings in those whose are favorable).

Mission investments can carry a market-rate or below market-rate expected return on a risk-adjusted basis, but not all charitable activities can support investment. Organizations or projects that can support investment have a revenue stream or other repayment source. The F.B. Heron Foundation, a model for many community as well as other foundations, has extended charitable, below market-rate program-related investments (PRIs) to approximately 20 percent of its grantees; for most foundations, the proportion is far less. Heron’s market-rate mission investments—representing a larger share of its assets (and sometimes called “mission-



The Seattle Foundation’s market-rate fixed-income portfolio includes a bond that financed 187 units in the Seola Crossing rental housing component of the Greenbridge HOPE VI Redevelopment, located in a King County community that is more than 70 percent low-income and minority.

related investments” or “MRIs”)—include primarily FDIC-insured deposits with CDFI banks and fixed-income securities and private equity funds with managers whose activities reinforce its community development mission but which are not represented in its grants portfolio.

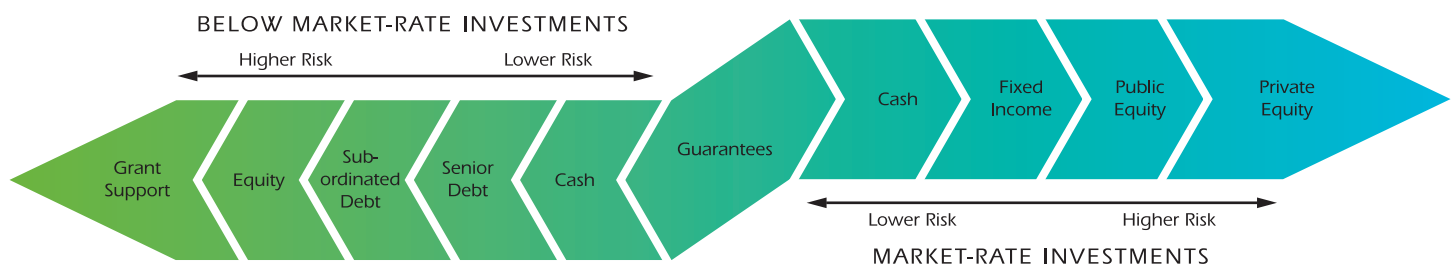
Strong mission investing performance often begins with the task of sourcing opportunities that both advance mission and meet expected return hurdles for the asset class and source of funds, i.e., grants budget (sometimes used to fund PRIs due to their clear charitable purpose, see Appendices A–C), unrestricted funds or other community foundation component. Heron’s Continuum of Mission-Related Investments (below) is a useful guide to the asset classes across which foundations make mission investments. As with conventional investments, the asset classes provide varying levels of risk and expected return, with guarantees being a special case in which the risk level varies from deal to deal. Significantly, foundations approach mission investing with

differing program goals and risk tolerance. Many seek diversification and professional management through specialized intermediaries or managers along the asset class continuum, while some opt for direct project or organizational investments to intensely target social outcomes. A foundation's mission investing strategy may develop from donor core competencies or assets, such as the real estate program of the Baton Rouge Area Foundation, which incorporates the capabilities of a real estate development company that was gifted to the Foundation.

Mission investing brings about new partnerships—not only with community leaders, entrepreneurs and financial

intermediaries such as CDFIs, but also with a range of institutional investors seeking social as well as financial returns. New investor partners include pension and insurance funds, hospitals, universities and inner-city and national church groups seeking to strengthen beneficiary communities, banks fulfilling the Community Reinvestment Act, corporations exercising corporate social responsibility and governments providing transaction guarantees or other credit enhancement. In addition to offering significant leverage for foundation mission investments, these partners bring experience in structuring transactions and referrals to fund managers and other professional support.

THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING



MISSION INVESTING EXTENDS PHILANTHROPIC RESOURCES THROUGH RECYCLING AND LEVERAGE

When mission investments repay, principal and interest can be recycled into new investments or grants. In addition, mission investments often attract other investors, greatly expanding the capital flows into low- to moderate-income communities, high performing nonprofit organizations and other enterprises advancing innovative solutions to social problems:

- In the New York Acquisition Fund, PRIs of \$32 million from five foundations leveraged \$8 million in city first-loss funds that protect the foundation's PRIs and more than \$200 million in senior debt from banks to finance the acquisition of sites for affordable housing. The model has been replicated on the Gulf Coast, by the state of Oregon and by the county of Los Angeles.
- Equity investment in a for-profit CDFI bank (or subordinated debt in a CDFI credit union) is leveraged some 10 times with deposits the depository lends in low- to moderate-income communities for asset-building home, small business and nonprofit organization loans.
- Subordinated debt in a CDFI revolving loan fund typically allows that entity to borrow five times the amount in senior debt from other lenders. CDFIs also provide early-stage, "predevelopment" financing, making possible projects that would not otherwise occur in low- to moderate-income areas and attracting commercial capital to later, more secure phases of these deals.
- Early-stage equity investment in for-profit companies engaged in clean tech, healthy food, the health care sector, inner-city areas and green real estate development spark advances in firms that serve as important new partners in solving social problems.

COMMUNITY FOUNDATIONS AND MISSION INVESTING

There is a growing body of community foundation experience in using mission investment strategies to mobilize resources from the community for the community as well as to attract national investors to support local initiatives. As profiled in the next section and summarized in Appendix B, community foundations are putting their knowledge of local markets to work in these strategies across asset classes and within the context of conventional asset allocation.

In fact, they have been doing so since the early days of program-related investing. While the Ford Foundation launched the field in 1968, a number of the most successful early PRIs were led by community foundations responding to

COMMUNITY FOUNDATIONS LAUNCH INNOVATIVE INTERMEDIARIES

In today's economically challenged times, community foundations are continuing a long tradition of launching or expanding intermediaries to improve the flow of capital into low-income and minority communities and the non-profits that serve them:

The **New York Community Trust** incubated the Nonprofit Finance Fund in 1980 to provide technical assistance and financing to nonprofits starved for capital. Today, the fund is a national, independent CDFI with nearly \$100 million in assets and a mission to "create a strong, well-capitalized and durable nonprofit sector that connects money to mission effectively, supporting the highest aspirations and most generous impulses of people and communities." It has loaned nearly \$200 million for facilities and working capital and leveraged more than \$1 billion for nonprofit organizations and projects across all sectors. www.nonprofitfinancefund.org

Similarly, the **Chicago Community Trust** supported the creation of IFF in 1988 as a lender to nonprofits (then the Illinois Facilities Fund). Now a regional CDFI with \$150 million in assets, an advisor to nonprofits and a policy advocate, IFF has expanded to serve Indiana, Iowa, Wisconsin and Missouri and has lent more than \$250 million in over 700 loans, achieving leverage of ten times for every dollar invested. www.iff.org

More recently, the trust provided a start-up loan and grants for CACE Shared Services, a partnership to help eight of Chicago's largest social service organizations control back-office costs. The partnership supports joint purchasing discounts expected to save \$2 million in supplies, energy, telecommunications, food service and health insurance, with plans for savings in finance, accounting, information technology and human resources, and membership open to the entire Chicago nonprofit human services sector. www.cct.org/page33798.cfm

"The community foundation field is only beginning to understand the potential of mission investing tools and their extreme attractiveness to donors."

— Molly Stearns, Senior Vice President
The Seattle Foundation

local needs. These successes resulted in ongoing PRI programs at the Cleveland, California and Marin Community Foundations and the spin-off of financial intermediaries elsewhere that serve regional and national markets while continuing to meet local needs (see sidebar and following section).

While community foundations have the local knowledge and experience in mobilizing resources needed for mission investing success, interviews with community foundation leaders identified factors unique to community philanthropy that can be addressed, both individually and by the sector, to further develop these opportunities:

- The community foundation business model—including donor-advised to unrestricted funds, field of interest, designated and scholarship funds, supporting organizations and agency endowments—offers unique potential to broker mission investing opportunities among local stakeholders; multiple priorities, however, create a need to manage the selection of mission investing strategy as well as concerns about potential additional complexity or cost.
- Investment management is generally outsourced, calling for engaging with outside vendors. This can be more complicated if trustee arrangements require a sign-off to any shift from current investment strategy.
- The composition of community foundation boards may create challenges. For example, frequent changes to promote inclusiveness may work against institutional history and learning. And conflicts of interest may arise if members also serve on the boards of organizations that would receive mission investments.
- The regulations for community foundations are different than for private foundations (which have clear regulatory incentives for making PRIs). While attorneys seem to agree that community foundations should follow the mission investing guidelines that apply for private foundations, to date there has been limited dialogue on how the guidelines apply.¹⁶

Community foundations are navigating these challenges to develop flexible and nuanced mission investing programs using both market-rate and below market-rate investments.

SETTING BENCHMARKS FOR MISSION INVESTING FINANCIAL PERFORMANCE IN GOOD TIMES AND BAD

The **F.B. Heron Foundation** seeks to meet or exceed established performance benchmarks for each asset class in its mission investment portfolio. For example, the benchmark for deposits is the Merrill Lynch 91-Day Treasury Bill Index. The benchmark for fixed-income securities is the Barclays Capital US Aggregate Bond Index (formerly the Lehman Brothers Aggregate). The benchmark for public equity is the S&P 500 Index. The benchmark for private equity is the Russell 3000 plus 3 percent. For program-related investments (below market-rate investments that can be of any asset class), the benchmark is the long-term inflation rate plus 1 percent. For the one-, three- and five-years ending December 31, 2008, Heron's total return placed it in the second quartile of the BNY Mellon All Foundation Universe. www.fbheron.org

The **Vermont Community Foundation**, which dedicates 5 percent of its pooled funds to investments across asset classes that focus on local community development, also benchmarks its performance on all of its mission and conventional investments. At the close of 2008, it continued to be ranked in the top 10 percent of community foundations for investment returns. www.vermontcf.org

In a recent survey and follow-up discussion at the **PRI Makers Network** (a trade association of roughly 200 foundations that make PRIs or are planning to), members reported both threats and opportunities arising from the current financial crisis. Some intend to deploy grants to strengthen the organizational stability of PRI recipients, while others are reassessing the timelines of active and proposed investments. Still other members foresee an expanded use of loan guarantees to leverage scarce commercial financing—something they can do even while program budgets are constrained. Members report that timely repayment for PRIs remains high (more than 90 percent overall) and that, in many cases, PRIs constituted their highest performing asset class in 2008—providing downside protection in the bear market. As one member said: “Flat is the new up.” www.primakers.net

As described in the following stories, community foundations are finding ways to:

- Adapt mission investing practices for a portion of unrestricted funds, including through the creation of special purpose revolving funds.
- Foster mission investing strategies led by donors, supporting organizations or agencies.
- Broker mission investing opportunities to donors, supporting organizations and agencies.
- Sponsor educational forums in which donors learn about mission investing as a philanthropic strategy.
- Engage leaders in the field of mission investing to address the board or encourage board members to attend mission investing seminars.
- Foster a collaborative mission investing planning process between donor, program, finance and investment staff.
- Develop mission investing strategy in the context of relevant policies, such as the Investment Policy, Gift Acceptance Policy and Individually Managed Fund Policy.
- Engage investment advisors to assist in shaping mission investing strategy or providing due diligence on prudent mission investing opportunities.
- Where needed, initiate board action to ensure that trustees make funds available for mission investing.
- Coordinate with local leaders to implement a local or regional mission investment strategy.

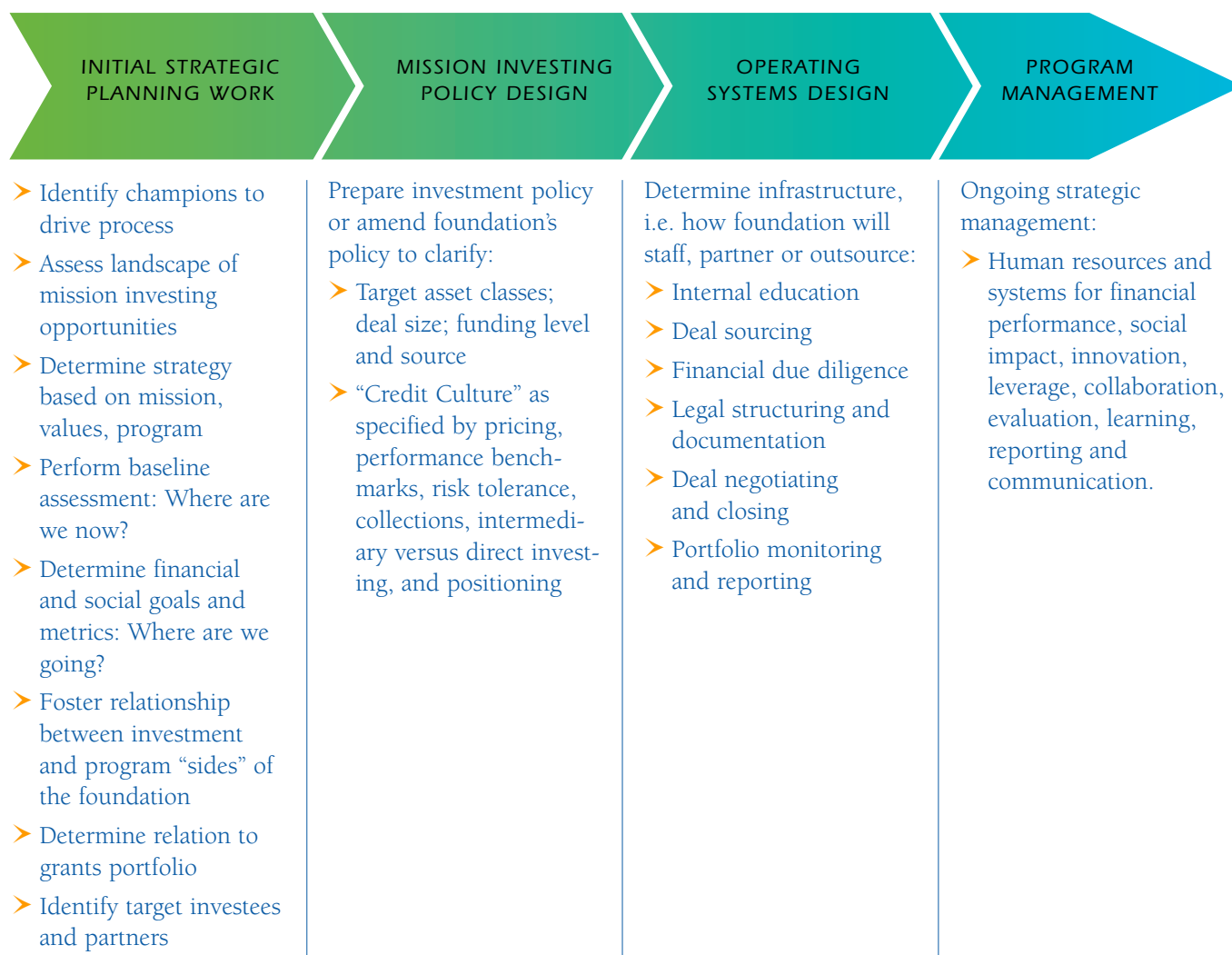


The Baton Rouge Area Foundation acquired and rehabbed a vacant mall into the Bon Carre office park, which includes a call center that provides jobs for residents of the diverse low- to moderate-income community.

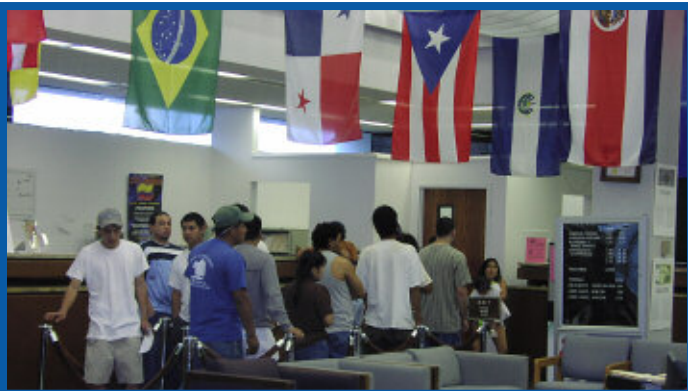
Community foundations are developing their mission investing programs within broader leadership agendas. Those agendas require diverse expertise, from disparate segments of the community, to advise on best long-term investments and shape a vision that is widely shared. As with any new program or investment strategy, each community foundation

will need to carefully evaluate how mission investing fits with its mission, values and resources. While there is no one right “first step” or approach (see sidebars)—and foundations typically build mission investing programs incrementally—a roadmap for planning a comprehensive mission investing strategy generally covers the following ground:

MISSION INVESTING PLANNING ROADMAP



On a sector level, community foundations will benefit from efforts to further showcase the successful mission investing activities already underway, to confirm how the regulatory framework is applied (see Appendix C), and to incorporate reporting on mission investing into other sector tracking initiatives already in place. They will be helped to translate ideas to action through existing network activities which can intensify mission investing focus and promote joint activities with both mission investing and diversity networks.



The Latino Community Credit Union was created to offer financial services, loans and advice that promote financial security and asset building for North Carolina's Latino immigrant population.

“The Latino Community Credit Union was not founded to fill a business void. It was a community response to crime. Latinos didn’t have access to a safe place to put their money. Now among the fastest growing credit unions in the country, LCCU has insured deposits and loans with its 50,000 members, providing educational workshops along with its mortgages, car and personal loans. Each of LCCU’s employees has been an immigrant at some point and is trained to provide financial education—from basic questions about interest to more complicated ones, such as credit scores and investing for retirement.”

— John Herrera, Chairman, Latino Community Credit Union

MISSION INVESTING FIRST STEPS

Many foundations “get in the game” with one or more well-tested mission investments or by adapting a tested mission investing policy while refining a longer-term strategy:

CASH AND FIXED-INCOME STRATEGIES TO ADD IMPACT

The Community Foundation for Greater Atlanta led with insured certificates of deposit at Citizens Trust Bank, a local, African-American owned, CDFI bank with a strong history of community lending and support. Using the Certificate of Deposit Account Registry Services (“CDARS®,” www.cdars.com), an innovative network through which depositors can extend their FDIC insurance to up to \$50 million in one bank, many foundations are placing large denomination deposits in CDFI banks, which the banks re-lend in the low- to moderate-income, often minority communities they serve. The foundation also opened a market-rate fixed income account with a manager who selects bond issues that support local affordable housing and other projects. www.cfgreateratlanta.org

DONOR-LED GUARANTEES FOR NONPROFIT LOANS

Donors at the Orange County Community Foundation initiated the OCCF Social Enterprise Loan Fund to guarantee bank loans to local charter schools and other high performing nonprofits. Since 2006, the program has provided 5 loan guarantees to leverage over \$20 million of bank financing with no defaults to date. Keys to success include entrepreneurial training for nonprofit managers and careful deal sourcing. Participating donors see OCCF as connected to community needs, a vehicle for strategic philanthropy and a platform for financial innovation. www.oc-cf.org

GRANT FUNDS TO GET THE MISSION INVESTING BALL MOVING

Using its Community Revitalization Fund grant pool, the Greater New Orleans Foundation approved its first guarantee for an affordable housing development project. Using a grant to fund a financing structure can be a good way to familiarize the foundation with the types of due diligence that will be a part of any mission investing program. www.gnof.org

PROGRAM, FINANCE AND PEER COLLABORATION

Following discussions of mission investing at meetings of the Fiscal & Administrative Officers Group, the Greater Cincinnati Foundation's CFO and Vice President of Community Investment worked together to develop a PRI program that draws on the expertise of neighboring Cleveland Foundation. Cleveland provided its PRI Policies and joined a PRI presentation to the Cincinnati board, which in turn approved launching a program with policies largely adapted from Cleveland's successful program. www.greatercincinnati.fdn.org

SECTION III: ADVANCING COMMUNITY EQUITY

“Kalamazoo is certainly not unique...what is unique are the ways the Kalamazoo Community Foundation has played an integral role in helping to shape our community’s future economic vitality. . . . Our community has been striving to create an economy that relies far less on the largess of companies with headquarters in distant cities. We are shaping an economy that renews itself when successful people and philanthropic organizations reinvest locally in new companies and new ventures. Of course, there is risk, but we have been fortunate that our board of trustees and others in the community are willing to take those risks to reap possible rewards.”

— Jack Hopkins, former President, Kalamazoo Community Foundation

STORIES OF COMMUNITY FOUNDATIONS ADVANCING EQUITY WITH MISSION INVESTING

Just as there are many strategies for pursuing social equity and many tools in the mission investing toolkit, there are many examples of community philanthropies using their financial leverage to support change in their communities. Every story is shaped by the culture of its place, the qualities of its lead characters and the time frame in which it unfolds. The profiles that follow are intended to be illustrative and provocative. That is, they should answer some questions and prompt more. They were chosen to exemplify common themes and options, especially the range of investment options, the many ways they intersect with racial and social equity issues, the range of foundation sizes and communities in which investments are being deployed, the various partnerships or staffing plans that get them done, and the leverage they are achieving.

PARTNERING FOR LONG-TERM CHANGE IN NEW HAMPSHIRE

The Granite State is known for many things—among them its rugged beauty, its early presidential primary, and its commitment to small government, enshrined in its motto “Live Free or Die.” One thing New Hampshire is not known for is significant racial diversity. Yet this largely white community is home to small but growing numbers of Hispanics, Asians and African Americans.

New Hampshire presents a much greater range of economic diversity, with several enclaves of significant wealth spread among numerous pockets of deep poverty. Most residents live in the southern half of the state, often commuting to work in Massachusetts. Life is much different in the north, where small towns and homesteads are cut off from larger population hubs by the White Mountains and a centuries-old tradition of self-reliance. New Hampshire’s townships are proudly self-sufficient political bodies, and geographic isolation can make the economic diversity of the state’s 700,000 residents hard to see or address from a state level.

It was in this context that the managers of the **New Hampshire Charitable Foundation** gave their initial support to an emerging agency, the **New Hampshire Community Loan Fund**. The fund started in 1984, in the foundation’s basement, and focused on addressing the housing needs of the state’s poorest residents. The long, cold winters that characterize New England call for annual heating assistance for the poor and elderly. Because federal support for these programs is hard to administer in a proudly decentralized state, plans arose for a statewide nongovernmental

FROM LOCAL LENDING TO FEDERAL POLICY

The **New Hampshire Community Loan Fund** was one of the nation’s first nonprofit loan funds designed to fill credit gaps in low-income communities. Loan funds are part of a range of financial intermediaries that came to be known as Community Development Financial Institutions (CDFIs) in the 1990s, when the Treasury Department launched a federal Community Development Financial Institutions Fund (www.cdfifund.gov) to certify and fund these mission-driven providers. There are now some 800 CDFIs nationwide, largely capitalized by private foundation PRIs, faith groups and bank loans made in connection with the Community Reinvestment Act (often as the required private match to grants from the CDFI Fund). Serving low-income urban, rural, and reservation communities, CDFIs take the form of regulated banks and credit unions, unregulated loan funds, venture capital funds and micro-enterprise lenders with a collective \$25 billion under management. Foundations that make mission investments increasingly partner with CDFIs, which, by extending non-predatory credit and financial services in low-income and minority communities, serve as a vehicle for wealth building and a portal to the financial mainstream. See also Appendix D.



Since 1984, the New Hampshire Community Loan Fund has helped residents of manufactured housing parks gain security and equity by purchasing and managing the land under their homes.

resource to help distribute funds. The Community Loan Fund got its start administering these heating assistance funds, but quickly expanded its reach to address the inequities inherent in manufactured housing parks, where many of the first recipients of heating assistance lived.

The fund's on-the-ground experience with helping residents in housing parks revealed some troubling trends. First, banks weren't lending money to buy manufactured homes, so the only access to this relatively affordable form of housing was through predatory lenders. Second, rising land prices were encouraging many park owners to sell the land, evicting residents who owned their manufactured homes but rented the land on which they sat. The Community Loan Fund stepped in to fill the financing gap, in part by helping residents form cooperatives to purchase the land under their homes. This concept fundamentally altered the equity equation in rural New Hampshire and has since become a national model. The innovations of non-predatory lending and effective land tenure for manufactured housing owners changed this form of housing from a depreciating asset like a car to an appreciating, wealth-creating asset like traditional homeownership.

SNAPSHOT: NEW HAMPSHIRE CHARITABLE FOUNDATION

FEATURED MISSION INVESTING STRATEGY	Created an intermediary organization, the New Hampshire Community Loan Fund.
INVESTMENT STRUCTURE	Below market-rate, long-term loan to be repaid from the Community Loan Fund's successful loan performance.
GOALS OF THE STRATEGY	Provide non-predatory financing for manufactured housing to promote ownership, asset appreciation and financial security for low-income households.
IMPACT	<ul style="list-style-type: none"> ➤ 398 loans totaling \$17,452,724 for low- to moderate-income families. ➤ 80 manufactured housing cooperatives, potentially saving 4,506 affordable homes. ➤ \$15,307,088 in financing to 651 small businesses, including childcare centers. ➤ Creation of national program to provide technical assistance, training and high-quality mortgage financing to residents of manufactured housing communities.
INITIAL CHAMPIONS	Management
LESSONS LEARNED	<ul style="list-style-type: none"> ➤ Started with donor-advised grant funds, grew to direct investment as track record of returns was established. ➤ Continues to supplement endowment investment with grant support that serves as programmatic growth capital. ➤ Loan fund has expanded its activities to meet other critical needs, such as financing local childcare providers and small businesses with excellent worker benefits.

“Donors often want the visible impact of local projects, while creating and capitalizing financial intermediaries allows for scale and risk mitigation. With an infrastructure of sustainable institutions in place, community foundations can create an asset allocation with portfolios including CDFIs and other funds. This may seem less juicy in a particular neighborhood, but it’s great for driving systemic change in the larger catchment area.”

— Julie Eades, President, New Hampshire Community Loan Fund

The Charitable Foundation provided early seed funding as well as office space to the Community Loan Fund. This relationship has continued for more than 20 years. The foundation has supported the fund with grant dollars and endowment investments, providing a base of financial support, a credible partner and critical growth capital as the fund has expanded to finance childcare centers and workforce development programs so that residents can participate more fully in opportunities to earn a living and build assets.

In the early years, the foundation drew its support for the Community Loan Fund from interested donor advisors. But as the fund’s impact and credibility have grown, the foundation has expanded its commitment, leveraging donor funds with unrestricted grants and eventually investing part of its endowment directly in the fund to provide capital for low-interest loans.

INVESTING THE CORPUS IN VERMONT ENTERPRISES

Just across the Connecticut River, the state of Vermont is physically and demographically similar to, but politically distinct from, neighboring New Hampshire. Home to some of the nation’s best-known “socially responsible businesses,” including Ben & Jerry’s Ice Cream and Green Mountain Coffee Roasters, Vermont’s reputation for community mindedness offers a distinct counter-balance to New Hampshire’s rugged individualism. Both states are small, mostly white and mostly rural, but they have given rise to significantly different political and economic sensibilities.

From the perspective of the community foundations, the difference can be seen in how these statewide entities serve their far-flung constituencies. The New Hampshire Charitable Foundation mirrors the state ethos of local auton-

omy, using affiliate funds and regional boards to engage community members at the township level. **The Vermont Community Foundation**, which serves an area roughly the same size, engages community members from across the state through a single board of directors (and a fair amount of staff travel). It was members of this board, with roots in community enterprise and socially responsible business, who first raised the issue of using the foundation’s endowed assets to better serve the community.

Led by the board, the foundation has integrated a “5 percent for Vermont” strategy directly into its investment policies. The goal is to use at least five percent of the pooled assets to advance the foundation’s mission. As such, the Vermont focus of the policy is applied across asset classes, and the emphasis on state holdings is factored into its normal allocation of these assets. Sample investments include holdings in a Vermont-focused venture capital fund that is geared toward companies creating local jobs, investments in fixed-income securities that support local affordable housing, certificates of deposit in a local CDFI credit union, and a loan to a CDFI loan fund that supports local affordable housing and small business.

The foundation’s management team faced the unusual challenge of having a board that was eager to embrace mission investing at a time when there were relatively few structured opportunities to pursue. Partly in an effort to phase in the new investments over time, the foundation chose to work with an investment management firm that does not specialize in mission investing but was responsive to its specific goals for investing in-state. This strategy has worked well, as Vermont-specific investments are chosen from across asset classes within the larger investment policy. The foundation has also retained specialized consultants to provide due diligence and portfolio management on CDFI investments.



A High Mowing Seeds employee uses a wet seed extractor financed by the Vermont Community Loan Fund. The Vermont Community Foundation invests in the fund through its Vermont Investments program.

SNAPSHOT: THE VERMONT COMMUNITY FOUNDATION

FEATURED MISSION INVESTING STRATEGY	<ul style="list-style-type: none"> ➤ Invests in multiple asset classes via specialized managers and funds. ➤ Votes proxies on publicly traded securities.
INVESTMENT STRUCTURE	<ul style="list-style-type: none"> ➤ Market-rate investments in regional venture capital fund, fixed-income securities and insured deposits. ➤ Below market-rate, long-term loans to CDFI loan funds and similar types of organizations to be repaid from the funds' successful loan performance. ➤ Proxy and shareholder activity guidance on general portfolio using research from Interfaith Center on Corporate Responsibility and Sudan Divestment Task Force. ➤ Call fund managers annually to ask about proxy voting. ➤ One socially responsible investment (socially screened) pool for donors.
GOALS OF THE STRATEGY	Align investment strategies with programmatic mission; add new kinds of leverage through direct investments in communities to support jobs, housing, economic development and financial services for low-income Vermonters.
IMPACT	<ul style="list-style-type: none"> ➤ 30 single-family mortgages and 119 affordable rental units financed for low- to moderate-income residents. ➤ 42 companies and two facilities financed. ➤ 407 jobs created.
INITIAL CHAMPIONS	Board
LESSONS LEARNED	<ul style="list-style-type: none"> ➤ Phasing in a new investment policy is important even when leadership interest is high. ➤ Finding attractive venture capital investments may require investing in regional funds willing to seek job-creating investments within the community foundation's smaller service area. ➤ Selecting one set of social screens is challenging when serving a range of donor concerns. ➤ Aligning investments with mission does not have to entail lower returns and may position foundation's overall portfolio to reap more stable returns than it otherwise would.

INVESTING IN REAL ESTATE IN KALAMAZOO, LOS ANGELES AND MARIN COUNTIES

For some community foundations, real estate development plays a major role in the mission investing strategy. The following examples, one from Michigan and two from California, show how intermediary or direct investments in real estate can further mission objectives and maintain investment discipline. These three communities represent a spectrum of needs and possibilities, from a hard-hit former manufacturing town to the second-largest city in the nation to an enclave of wealth where the lack of affordable housing was driving away its population and stifling its effectiveness as a community.

REBOUNDED FROM ECONOMIC BLOWS IN KALAMAZOO, MICHIGAN

Located halfway between Detroit and Chicago, Kalamazoo put itself on the map in the early 1900s as a smaller but

powerful engine of economic development. Among the county's iconic manufactured goods were Upjohn Pharmaceuticals (later acquired by Pfizer), Gibson guitars and Checker Motors. Declining manufacturing coupled with increasing racial tension brought hard times in the 1970s, which bottomed by the late 1990s. The **Kalamazoo Community Foundation's** strong leadership response suggests lessons for today's more widespread economic challenges.

Jack Hopkins, the foundation's former president, recalls that the county was "dealt a series of economic blows that resulted in a significant loss of jobs, people and philanthropic support... The ripple effect was tremendous as downtown shops, restaurants and businesses closed. Kalamazoo is still recovering and has a way to go. But what these devastating mergers and moves taught us is that we have to rely on ourselves and be more self-sufficient. The Community



The Kalamazoo Community Foundation used program-related investing to finance mixed-income housing (left) for 79 families, including working families earning 30–60 percent of the area’s median income and special-needs units for households earning less than 30 percent; a quality full-service grocery (center) in a minority neighborhood with no commercial development for thirty years; and the Western Michigan University Business Technology Research Park (right), a 58,000-square-foot scientific incubator with 18 current company tenants, eight graduates and 136 high-skill, high-wage jobs (including for more than 50 scientists).

Foundation began to look for new ways of leveraging our leadership and assets.”

Armed with a belief that “an economically strong community that creates wealth with well-paying jobs, health care and retirement benefits, which in turn supports growth opportunities for all of its citizens, is a community’s best social program,”¹⁷ the foundation formalized a strategy for

program-related investments (PRIs) and business-related investments (BRIs) in 2000 as the centerpiece of its county renewal efforts.

Hopkins formed an internal team including himself, a vice-president of community investment with a long and rich background in the community and its nonprofit agencies, and a donor services professional who had served as county

KALAMAZOO COMMUNITY FOUNDATION MISSION INVESTMENTS

- \$1 million PRI that leveraged grants from the foundation and nationally from the Local Initiatives Support Corporation for a full-service grocery in a minority neighborhood without one for decades. Its success has created a “tipping point,” attracting improved childcare, businesses and jobs to the neighborhood.
- \$4 million PRI for capstone financing of the Southwest Michigan Innovation Center at Western Michigan University, in partnership with Southwest Michigan First, a county economic development agency. The \$12 million innovation center supports efforts by scientists previously employed by Pharmacia/Upjohn and Pfizer to launch their own early-stage biotech and life sciences companies. The center has incubated 26 start-up companies, including 18 current tenants.
- \$382,000 PRI to Downtown Tomorrow Inc. (DTI), a nonprofit real estate developer and public-private partnership working to preserve Kalamazoo’s downtown, for purchase and development of a former adult entertainment business that drew crime to the city’s most diverse inner-city neighborhood.
- \$784,000 PRI to DTI to purchase a former paint store downtown, which DTI sold to developers, passing on the PRI to finance construction of 20 condominiums. The deal was initially said to be “non-bankable,” though at completion many of the condo dwellers sought mortgages with local banks.
- \$1,520,000 PRI to DTI to secure final property leading to the assembly of nine downtown acres that DTI and Western Michigan University will jointly develop.
- \$250,000 PRI to purchase land for 80 mixed-income housing units in a suburban area.
- \$1 million PRI to Air Zoo, an entertainment-based aviation museum developing plans for expansion.
- \$4 million BRI to become a limited partner in four venture capital funds with significant local ownership or presence. The foundation measures their success in terms of community betterment rather than return on investment.

administrator and had significant knowledge of finance, community and development. Given the generally adverse economic conditions, the team was determined to preserve assets in the PRI/BRI program. Accordingly, it called upon outside attorneys specialized in PRI to develop a policy and loan documents. Though the IRS has not defined PRI for community foundations, the foundation followed the guidelines for private foundations, customizing its use of proceeds criteria to reflect charitable purpose in keeping with the IRS definition:

- To ensure the creation and retention of jobs (relief of the poor and distressed);
- Help prevent further erosion of the tax base (lessening the burdens of government); and
- Ensure availability of intellectual capital to create synergy with schools, colleges and universities in the region (advancement of education).

Since 2000, the foundation's board has authorized \$21.5 million of unrestricted assets for PRIs and BRIs and a restricted field-of-interest Community Redevelopment Fund with \$1.5 million in added authority for PRIs (see sidebar). This is in addition to a program of guarantees it has long provided on mortgages for low- to moderate-income first-time homebuyers, more than 50 percent of whom are minorities.

With luck, one of the growth companies housed at the PRI-funded Innovation Center might follow in the footsteps of Dr. Upjohn or Dr. Stryker (founder of Kalamazoo's Stryker Corporation, one of the world's largest medical device companies). Meanwhile, by investing in development-oriented nonprofits and funds, the foundation is helping an array of modest-sized entrepreneurs to thrive and secure the county's long-term economic vitality. "The program of PRIs and BRIs has invigorated the Kalamazoo Community Foundation," Hopkins says, "and will continue to be a significant tool toward achieving its mission."

STRATEGIC FOCUS IN PROJECTS AND PARTNERS IN LOS ANGELES COUNTY

The **California Community Foundation** serves Los Angeles County, which covers more than 4,000 square miles and is home to ten million inhabitants—nearly 40 percent of them foreign-born. Indeed, the county is larger and more diverse than many states. Despite L.A.'s legendary sprawl, property values are among the nation's highest, making its housing market among the least affordable. Two-thirds of renters cannot afford the median-priced two-bedroom apartment, and 88 percent of residents cannot afford to buy the median-priced home. In addition, vast tracts of rental properties are improperly maintained, resulting in overcrowded and sub-standard housing.

Consequently, a majority of the residents—including the 40 percent of families with children who are renters—are transient. Many of these children change schools frequently



(Top) A PRI by the California Community Foundation provided early financing to a Los Angeles Inner City Education Foundation charter school, which received subsequent financing from Broadway Federal Bank, an African-American founded CDFI committed to serving minority consumers overlooked by other financial institutions. (Bottom) A PRI to the Community Foundation Land Trust helps secure sites for quality, affordable rental homes for low-income Los Angeles families.

as their families move to find safe, affordable housing. While renters face the greatest affordability challenges, high housing costs have pushed homeownership beyond the reach of many families. It is likewise difficult for families to plan for college, start a business or save for retirement when half their monthly income goes toward housing costs. Fewer than one in four families own a home in most of the neighborhoods the foundation serves, making it difficult to build a civic infrastructure.

Local governments allocate more than \$200 million per year to subsidize affordable housing production, and developers cobble together subsidies from federal, state and local sources. With these resources still woefully inadequate, recent PRIs by the foundation's Neighborhood Revitalization

program support two models for securing sites to develop housing affordably: a \$2 million loan to the New Generation Fund and a \$2 million loan to the Community Foundation Land Trust (see sidebars).

The foundation's broader PRI program has always focused on affordable housing and nonprofit facilities such as health centers. A recent restructuring of the program sought to strengthen its links to the foundation's program areas: neighborhood revitalization, education, health care, arts and human development. To keep it streamlined, the foundation operates as a wholesale lender, making large PRI loans and grants to leading intermediaries that re-lend to local nonprofits in combination with technical assistance. The goal is to build a significantly stronger base of nonprofits capable of meeting the county's community-level needs.

A FULL RANGE OF SUPPORT FOR LOCAL NONPROFITS IN MARIN COUNTY

Located just north of San Francisco, Marin County is a largely preserved agricultural region with one of the nation's highest per capita incomes and housing prices to match. A major decision to protect the Golden Gate and Point Reyes Recreation Areas, as well as concerted efforts by farmers to protect agricultural land, keeps much of the county green, accessible and undeveloped. Marin's natural beauty, coastlines, proximity to San Francisco and limited space also mean housing is too costly for all but the wealthiest families. Although prices have since slumped, the median price of a single-family home in 2007 topped \$1 million.

Over the years, the county's low-income population—largely minority—has been squeezed into smaller and smaller areas. Meanwhile, farm workers, service providers, teachers, nurses and county officials have lost the ability to live where they work.

Marin is also home to one of the nation's largest community foundations. Seizing the opportunity to direct endowment resources to critical community needs, such as housing and a viable nonprofit sector, the **Marin Community Foundation** makes below market-rate loans to nonprofits, chiefly for affordable housing development. In addition to operating a \$10 million loan fund in-house, its staff provides technical assistance to borrowers and other nonprofits on debt structuring and financial management. The foundation both leads and takes positions in participation loans to nonprofits with area banks. Finally, it has occasionally purchased or financed multi-tenant nonprofit centers, where several nonprofits co-locate to lower operating costs and enhance collaboration. By deploying its resources in the form of debt, capacity building and real estate acquisition as well as grants, the foundation has invested in long-term efforts to bring affordable housing and other services to this land-strapped region.

“Loans empower well-managed organizations to stabilize operations, complete programmatic goals, undertake new projects and expand community impact. Often our loans help nonprofit organizations become the owners of assets, building long-term financial stability.”

— Marc Rand, Loan Officer, Marin Community Foundation

LEVERAGING CAPITAL MARKETS AND REAL ESTATE FOR HOUSING AFFORDABILITY

Modeled after housing acquisition funds in New York City and the Gulf Coast, the **New Generation Fund** is a structured pool of debt used to acquire sites for affordable housing. While structured finance has gotten a bad name in the recent credit crisis, it remains a highly effective tool to help qualified but underserved borrowers secure financing. The structure typically includes three layers or “tranches”: a “first loss” tranche of funds, in this case from the City of Los Angeles; a “second loss” tranche of foundation PRIs; and a much larger, “senior” tranche of debt from commercial banks. Foundation PRIs play a crucial role in leveraging these large commercial loans by accepting a higher degree of risk.

The California Community Foundation and Los Angeles County sponsored the creation of the **Community Foundation Land Trust** as a model for ensuring the long-term affordability of property developed for the benefit of low-income residents. The trust acquires parcels of land in targeted communities to create and sustain affordable rental and for-sale housing. A land trust typically leases property to a developer or purchaser for 99 years, detailing property affordability, use, maintenance and resale requirements.

The foundation created the land trust partly to test and demonstrate models in its neighborhood revitalization work that may take time and resources to bear fruit. Since 2002, the trust has tested a range of ownership and subsidy approaches by initiating six demonstration projects that have produced almost 300 homes. It has entered into partnerships with four local government agencies and secured more than \$10 million in loans for site acquisition, including PRIs from the California Community Foundation and other local philanthropies. www.calfund.org/learn/land_trust.php

SNAPSHOT: KALAMAZOO, CALIFORNIA AND MARIN COMMUNITY FOUNDATIONS

	KALAMAZOO	CALIFORNIA	MARIN
FEATURED MISSION INVESTING STRATEGY	<ul style="list-style-type: none"> ➤ PRI below market-rate loans and BRI venture capital limited partnerships to promote community economic growth. ➤ Loan guarantees primarily for neighborhood redevelopment, including mortgages for low- to moderate-income households. 	<ul style="list-style-type: none"> ➤ Wholesale strategy of below market-rate loans to leading intermediaries for re-lending in priority sectors including affordable housing, child-care and health care. ➤ PRI to Community Foundation Land Trust to lower the cost of acquiring housing sites. 	<ul style="list-style-type: none"> ➤ Below market-rate loans directly to nonprofits in all sectors, with emphasis on affordable housing developers. ➤ Under separate program, has purchased and leased space to nonprofits in multi-tenant nonprofit centers.
INVESTMENT STRUCTURE	<ul style="list-style-type: none"> ➤ Land purchases; cash recycles when land is sold to a developer. ➤ Direct low-interest loans for real estate development, repaid when project obtains permanent mortgage. ➤ Venture capital fund investments (made through a supporting organization), repaid when portfolio companies are sold or refinance. ➤ Guarantees, in which cash is disbursed only if guaranteed loan defaults. 	<ul style="list-style-type: none"> ➤ Below market-rate, long-term loan to loan fund, to be repaid from the loan fund's successful loan performance. ➤ PRI to Community Foundation Land Trust finances site acquisition to be repaid in full by the developer as a capitalized pre-paid ground lease (capital for which comes from public and other funding when the project advances). 	<ul style="list-style-type: none"> ➤ Direct low-interest loans for affordable housing development and other nonprofit needs, which are repaid when borrowers complete projects or refinance. ➤ Recouping investments in multi-tenant nonprofit centers can occur over time as foundation collects rent.
GOALS OF THE STRATEGY	<ul style="list-style-type: none"> ➤ Revitalize blighted areas. ➤ Promote long-term, locally-driven economic vitality by financing development of affordable housing and commercial space for job-creating and cultural enrichment enterprises. 	<ul style="list-style-type: none"> ➤ Align PRI and grant programs. ➤ Partner with leading intermediaries that offer technical assistance and credit to nonprofit borrowers. ➤ Leverage commercial capital and government support for affordable housing. ➤ Experiment to develop models for long-term housing affordability. 	<ul style="list-style-type: none"> ➤ Manage lending program in-house for optimal control. ➤ Create incentives for local bank lending to affordable housing developers by taking lead lender and/or subordinated lender positions.
IMPACT	<ul style="list-style-type: none"> ➤ 26 businesses incubated. ➤ 277 full-time and 225 construction jobs created. ➤ 238,000 square feet of commercial real estate financed. ➤ \$259,000 added to tax base. ➤ 98 housing units developed; 700 mortgages guaranteed, some 50 percent of which are to minority households. 	<ul style="list-style-type: none"> ➤ 4,507 affordable housing units created. ➤ 300,000 square feet of community facilities financed. 	<ul style="list-style-type: none"> ➤ More than 500 units of affordable rental units created.

SNAPSHOT: KALAMAZOO, CALIFORNIA AND MARIN COMMUNITY FOUNDATIONS

(continued)

	KALAMAZOO	CALIFORNIA	MARIN
INITIAL CHAMPIONS	Management and Board	Management	Management. The loan fund's initial capital came from Buck Trust, the foundation's first and largest fund.
LESSONS LEARNED	<ul style="list-style-type: none"> ➤ Obtain board approval for a designated pool of funds to invest and recycle, eliminating need for repeat funding requests. ➤ Operate from program side rather than managed asset side, but develop a risk continuum; undertake each investment with the bottom line of retaining the asset and collateralize accordingly. ➤ Closely monitor transaction over time and routinely update leadership. The foundation monitors quarterly, provides information for CEO's monthly update and prepares annual summary for board and management. 	<ul style="list-style-type: none"> ➤ Invest in leading intermediary partners to build strong operation with modest infrastructure investment. ➤ Combine PRI with growth capital grants to intermediaries to ensure strong local coverage and ability to provide technical assistance. ➤ Leverage conventional markets and cultivate bank partners for intermediaries and their nonprofit borrowers by investing subordinated debt that can serve as credit enhancement. 	<ul style="list-style-type: none"> ➤ Foundation experimented with outsourcing the lending function to an intermediary but took it back in-house to achieve better integration of lending with its other services for nonprofits. ➤ Differentiate function of loans versus grants: not all grantees have ability to take on debt, and grants should not be made to substitute for financial management or to repay defaulted loans.



(Left) Home to artists and maritime workers, Galilee Harbor is a live-aboard affordable housing community with a 100-year history and current financing from the Marin Community Foundation.

(Right) "Our mission is really to carry through the visions of those who came before us," says Doreen Gounard, the community's harbor master.

BUILDING LOCAL CAPACITY IN CLEVELAND

One of the advantages of a long lifetime is the opportunity to try many strategies and learn over time. The **Cleveland Foundation**, established in 1914, is the nation's oldest community foundation. Over the last century, it has incorporated several community-focused strategies into its investment policies.

Cleveland's industrial base boomed after World War II but then fell into decline, exacerbated by racial friction in the late 1960s. PRIs from the Cleveland Foundation were critical to the recovery that began in the 1970s. In 1982, the foundation bought several buildings that contained theaters slated for demolition in the city's historic Playhouse Square district. It held them for restoration by the Playhouse Square Foundation, and after five years sold them, capitalizing a PRI pool it recycles and has built to \$27 million to finance neighborhood housing and small business development.

By 1984, the George Gund Foundation joined the Cleveland Foundation as a co-investor in neighborhoods. Five years later, the two came together to make a set of PRIs that, along with support from the city's leading corporations, launched Neighborhood Progress Inc. (NPI), a local intermediary that went on to leverage local market knowledge and attract national investors. In its first five



years, NPI provided core operating support to 17 Community Development Corporations and leveraged \$20 million of philanthropic funding into \$122 million of neighborhood real estate investment.

MISSION INVESTING IN COMPREHENSIVE DEVELOPMENT

The **Cleveland Foundation** has invested in Neighborhood Progress Inc. (NPI), ShoreBank, Enterprise Community Partners/Green Communities and the Evergreen Cooperative Laundry to spark comprehensive revitalization of city neighborhoods:

- NPI: Funds challenge grants to Cleveland neighborhoods with the strongest growth plans and development corporations, awarding more than \$1.6 million every year. Operates Strategic Investment Initiative (leadership training to the top performing challenge grantees), Village Capital Corporation and New Village Corporation. www.neighborhoodprogress.org
- Village Capital Corporation: Uses nonprofit status to secure low-interest financing for neighborhood projects. Leveraging almost \$18 of private and public money for each dollar of its own, VCC has lured more than \$750 million of new private investment to Cleveland.
- New Village Corporation: Creates projects with the power to transform neighborhoods, brokering deals for developments that are too large for community development corporations and too risky for private developers acting on their own. Since 1991, it has built neighborhoods with affordable and market-rate housing, shopping centers and grocery stores, bringing more than \$150 million in new development to Cleveland.
- ShoreBank Enterprise Cleveland: As a nonprofit affiliate of ShoreBank, a national CDFI, ShoreBank Enterprise Cleveland provides early-stage and subordinated debt to foster the growth of minority-owned businesses and other enterprises with potential for high job growth in northeast Ohio. www.shorebankenterprise.org
- ShoreBank: Active in Chicago, Cleveland, Detroit and the Pacific Northwest, this FDIC-insured CDFI and environmental bank works to build stronger communities, create a healthier environment and help customers achieve financial success. www.sbk.com
- Enterprise Community Partners/Green Communities: Provides financial and technical support to help developers build and rehabilitate homes that are healthier, more energy efficient and better for the environment. Green Communities works with state and local governments to ensure their housing and economic development policies are smart and sustainable. www.enterprisecommunity.org/programs/green_communities
- Evergreen Cooperative Laundry: First worker-owned business in a strategy to stimulate a local and minority-owned, green business supplier base for major institutions like the Cleveland Clinic, Case Western Reserve University, University Hospitals, Cleveland Orchestra and Cleveland Art Museum. With New Markets Tax Credits and financing from the City of Cleveland, Cleveland Foundation and private banks, Evergreen will be located in a ShoreBank-managed incubator and provide laundry services to hospitals and other institutional clients. www.evergreencoop.com

SNAPSHOT: CLEVELAND FOUNDATION

FEATURED MISSION INVESTING STRATEGY AND STRUCTURE	<ul style="list-style-type: none"> ➤ Below market-rate loans to intermediaries, with emphasis on those that are homegrown or firmly established with a local presence. ➤ Below market-rate equity investments in commercial bank and small business initiatives. ➤ Real estate purchase, rehab and resale.
GOALS OF THE STRATEGY	Framed by the foundation as restoring “communities of choice”—helping selected challenged markets in Cleveland’s inner-city to work, including for minority-owned businesses. Recently, expanded goals include shoring up neighborhoods in response to the foreclosure crisis and jump-starting the regional economy.
IMPACT	<ul style="list-style-type: none"> ➤ 2,600 affordable rental housing units created. ➤ 6,443 affordable homeownership units created. ➤ 40 minority-owned businesses financed. ➤ 1,500 jobs created or retained.
INITIAL CHAMPIONS	Management
LESSON LEARNED	<ul style="list-style-type: none"> ➤ Building strong local intermediaries is a long-term, capital-intensive process, but is important for local knowledge and long-term commitment. ➤ Collaborate with and attract national intermediaries to leverage local resources. ➤ Creating some viable communities of choice means not investing in other communities. ➤ Set aside PRI funds in a revolving pool to avoid having to request liquidations of endowment holdings for each investment. ➤ Use full range of investing tools, from recoverable grants for transactions under \$100,000 to property acquisition to conventional venture capital investments (see Appendix A for discussion of recoverable grants, which can have lower transaction costs and be more appropriate than PRIs for very-early-stage projects). ➤ Carefully execute all stages of the investment process, from deal sourcing to preparation of investment memoranda to the board to portfolio monitoring. ➤ Work across program and financial areas to ensure top-notch execution of due diligence and monitoring for each transaction. ➤ Develop boilerplate legal documents for transactions to reduce operating costs over time. ➤ Adjust strategy as needed; current emphasis is on foreclosure prevention and strengthening regional economy, while continuing to invest in minority-owned businesses.

To complement NPI’s real estate efforts, city leaders raised foundation and corporate equity and debt to bring ShoreBank, the nation’s largest CDFI bank, to the east side of Cleveland in 1994. ShoreBank Cleveland helps minority-owned small businesses become more competitive through bank debt, higher risk enterprise finance from its nonbank affiliates and office space in a neighborhood enterprise center that provides operations, marketing and workforce development consulting.

The Cleveland Foundation continues to innovate with PRIs to build environmentally sustainable, affordable housing through the Green Communities Initiatives and to stem the

foreclosure crisis in partnership with NPI, Living Cities (a national consortium of banks and foundations) and a university data system that identifies distressed homeowners to “buy” time for work-out of their loans. Its most recent PRIs stimulate minority business ownership of green suppliers for local institutions, such as the Evergreen Cooperative Laundry (see sidebar).

To spur longer-term economic development, the Cleveland and Gund Foundations have joined with other local leaders to mount a regional development strategy known as the Fund for our Economic Future. This consortium of 100 foundations and other endowed institutions

(including universities, hospitals and museums) is working to restore competitiveness, in part through a campaign encouraging its members to dedicate 1–2 percent of their assets to investments in businesses with the potential to build a new economic base. The Cleveland Foundation will treat such investments as market-rate, mission-related investments, assigning due diligence to its outside investment managers as it would for any other endowment asset.

VOTING FOR COMMUNITY IN BOSTON

The Boston Foundation promotes its core values—access, equity, diversity, fairness and respect—in numerous ways, most visibly through its programs, including PRIs to support affordable housing. But it also applies an ethic of civic stewardship to its role as a fiduciary. As a community foundation, it seeks to act as a moral agent, inspiring trust, confidence and responsibility. This includes taking explicit steps to ensure that “other 95%” of invested assets—and the shareholder clout they represent—are managed to advance mission.

This commitment led the foundation to divest from companies that profited from South Africa’s system of racial exploitation in the 1980s and from tobacco companies in 1995. It led the foundation to become the first community foundation in the country to develop a proxy voting policy consistent with mission in 2002.

“Devoting time and resources to proxy issues is the right thing to do. It also gives the foundation a competitive advantage in attracting new donors. Having our policy lets potential donors and others know that we are paying attention to credibility, precision and transparency. It gives us total alignment between who we are and what we do.”

— Gail Snowden, CEO, Freedom House
Former Chief Financial Officer, The Boston Foundation

The foundation’s policy of voting on shareholder resolutions focuses on issues related to the environment, community well-being and citizenship, diversity and equity, and good corporate governance. Its specific voting guidelines cover nearly 100 different proxy matters that are annually updated and posted on its website.¹⁸ The foundation holds approximately 1,400 equity positions and casts some 500 proxy votes a year, employing Institutional Shareholder Services (a unit of RiskMetrics Group) not only to cast its votes but also to furnish detailed research that helps inform its position on

SNAPSHOT: BOSTON FOUNDATION

FEATURED MISSION INVESTING STRATEGY	Shareholder activism.
INVESTMENT STRUCTURE	No new investment required; casts proxy votes on stocks already in its endowment portfolio. For pooled funds, foundation may sell short shares of objectionable holdings.
GOALS OF THE STRATEGY	Fulfill the foundation’s obligation as a fiduciary with respect to the assets it owns by voting proxies on stock holdings.
IMPACT	Active ownership strategies such as proxy voting and divestment can work as a tool for change when a critical mass of investors takes a stand. The foundation’s proxy voting has supported increased diversity and stronger governance practices of companies whose shares it owns, while also safeguarding the environment, community well-being and citizenship.
INITIAL CHAMPIONS	Board—Investment Committee Chair
LESSON LEARNED	<ul style="list-style-type: none"> ➤ As a shareholder, the foundation uses proxy voting both to leverage its assets to further its mission and to affirm its values without moving any money. ➤ The board-level process of gaining consensus on proxy votes has been onerous despite individual members generally agreeing to the values guiding proxy decisions. ➤ The volume of issues to be considered is large and complex. Use of a third-party service for research, execution and tracking has proven helpful.

each proxy issue and to produce quarterly reports of its votes on an issue-by-issue, company-by-company basis. In pooled funds where the foundation may not be able to directly vote proxies or divest of holdings, it may independently sell shares of objectionable holdings short to signal its concerns.

While resolutions the foundation supports do not always garner a majority vote, the process of company engagement may produce the desired policy change. Thus a resolution calling for a global manufacturer to prohibit discrimination on the basis of sexual orientation garnered only 39 percent of the vote, but the company soon revised its equal opportunity statement to prohibit the practice.

CLAIMING A SPACE IN SEATTLE'S MARKETPLACE

The **Seattle Foundation** has long been a pioneer in providing new opportunities for potential donors. Given the region's abundance of engaged and innovative philanthropists, including the founders of Social Venture Partners, the community foundation has led the field in working with professional advisors and finding ways to work with a wide range of partners.

And the foundation has handled this market pressure well. While the area has its share of energetic and engaged young wealth, it also struggles to provide high quality public schools for all students and to care for the communities of color, the poor and elderly. As part of its response, the foundation created a portfolio of market-rate bonds that support local affordable housing, enterprise and community development. The bonds fit into its existing fixed-income asset allocation. By letting donors know it was using its resources this way—it hosted a donor education event to introduce the fixed-income manager and strategy—the foundation extended its claim of unique long-term commitment to the betterment of the region, distinguishing itself from national purveyors of donor-advised funds.

The foundation also developed a three-pronged strategy to help donors participate in more of this type of investing. Through its mission investing program, the foundation and its donors can invest assets from a donor-advised fund or a supporting organization with the principal and a return repaid for future grantmaking. Donors can invest in a targeted portfolio of market-rate fixed-income securities,

SNAPSHOT: SEATTLE FOUNDATION

FEATURED MISSION INVESTING STRATEGY

- Market-rate, fixed-income purchases through nationally recognized fund manager.
- Below market-rate PRIs in priority areas of economic opportunity and education.
- Donor-customized PRIs.

INVESTMENT STRUCTURE

- Market-rate, fixed-income securities.
- Below market-rate, PRI loans to CDFI loan funds and similar types of organizations to be repaid from the funds' successful loan performance.

GOALS OF THE STRATEGY

Market service to donors as a competitive advantage of the community foundation versus commercial funds.

IMPACT

- Home mortgages for 15 families totaling almost \$2 million.
- \$2.8 million in affordable multifamily rental housing mortgage-backed securities in low- to moderate-income communities, some of which have over 65 percent minority residents.
- \$1,198,828 of small business investments that support enterprise development.
- \$1 million of comprehensive community development projects.

INITIAL CHAMPIONS

Management and donors

LESSON LEARNED

- Mission investing offers a platform for differentiating the foundation from other philanthropic services to both attract and educate donors.
- Market-rate investments can offer highly targeted local impact while fitting into the foundation's standard asset allocation.
- The foundation relies on the skills and interests of its finance staff. As the program grows, it is partnering with intermediaries and may dedicate additional human resources.

they can customize more traditional PRI loans to projects and organizations of their choice, or they can invest alongside the foundation when it makes PRIs to support its priority issues of economic opportunity and education. For its own mission investing program, the foundation has chosen to feature market-rate fixed-income securities—and fund PRIs—without tapping the grants budget.

The Seattle Foundation is able to provide high quality due diligence on investments drawing upon the skills and interests of its finance team. Investment, finance and grants committees are all involved in various offerings. In addition, the foundation recently announced a \$1 million PRI in the National Development Council, a national CDFI, to develop the Grow Seattle-King County Fund for small business lending in partnership with King County and the city of Seattle.

BANKING ON COMMUNITY IN BARBERTON

Like Cleveland, which lies 40 miles to the north, Barberton, Ohio, lost a great number of manufacturing jobs in the 1970s and 80s. Although its population stabilized just below 28,000 (down from 33,000), the loss of high-paying, relatively unskilled jobs left the once pristine, planned community scrambling to re-establish its economic core.



The Barberton Community Foundation makes PRIs in partnership with the Barberton Community Development Corporation, whose services include recruiting businesses to a range of available local sites.

SNAPSHOT: BARBERTON COMMUNITY FOUNDATION

FEATURED MISSION INVESTING STRATEGY	Provide low-cost funding for targeted loans originated by local community development corporation and local banks.
INVESTMENT STRUCTURE	<ul style="list-style-type: none"> ➤ Linked deposits with participating banks at below market-rates of interest. ➤ Loan to community development corporation, with repayment dependent on its loan performance.
GOALS OF THE STRATEGY	Increase city revenues and local income and wealth through small business job creation, sales revenue and taxes and home improvement among low- to moderate-income households.
IMPACT	<ul style="list-style-type: none"> ➤ \$19 million in loans to some 20 businesses. ➤ Approximately 750 jobs created or retained. ➤ New annual tax revenues of more than \$356,000 (property tax) and \$268,000 (income tax). ➤ 30 home improvement loans for over \$412,000 to a diverse group of residents including minorities, seniors and single female heads of household.
INITIAL CHAMPIONS	Management
LESSON LEARNED	<ul style="list-style-type: none"> ➤ Partner with existing infrastructure, particularly conventional bank and community development corporation lenders. ➤ PRIs allow the foundation to recycle charitable dollars in an ongoing activity above its annual spending level.

The **Barberton Community Foundation** stepped in with an \$8 million loan pool to attract and grow small businesses as well as to help local residents improve homes. The goal was to restore the local economy while preserving the endowment.¹⁹

Barberton's PRI program is among the most replicable because of the way it collaborates with conventional community banks and local nonprofit intermediaries. These partnerships allow it to make concessionary commercial, small business, and home improvement loans. Upon repayment, the foundation revolves the loans, treating them as investments to benefit the community that are over and above its 5.5 percent annual spending level. It also makes bridge loans, using its assets to unleash financing from other lenders and business owners' equity contributions. The foundation's four primary loan programs are the:

- Barberton Community Development Corporation Program, which assists companies expanding in Barberton or moving there.
- Business Linked Deposit Loan Program, which collaborates with the community development corporation program and local banks to provide below market-rate financing to eligible businesses that can expand and increase employment opportunities.
- Home Improvement Loan Program, which provides financing for improvements to low- to moderate-

income, single-family, owner-occupied homes in the community.

- Neighborhood Conservation Services Program, which assists low- to moderate-income, first-time homebuyers with home improvements.

FROM HOUSING TO HEALTH CARE IN RHODE ISLAND

Since its inception in 1916, the **Rhode Island Foundation** has served as a philanthropic resource for the state's people, communities, organizations and programs. Its current work entails evaluating community issues, making strategic grants to build the capacity of the nonprofit sector and leading civic dialogues on such important issues as equal rights. The foundation has translated dialogue into action on the racial and social equity front with the creation of a Women's Fund, a Black Philanthropy Initiative and a sexual orientation and identity fund known as Equity Action.

Maintaining stewardship of its permanent endowments, by honoring donor intent and addressing current needs, is central to the foundation's mission. Some of its most creative initiatives have used carefully structured mission investing with unrestricted funds. In 2000, it invested \$2 million to purchase the preferred stock of an out-of-state organization that had provided Neighborhood Health Plan of Rhode Island with start-up capital. The foundation's investment

SNAPSHOT: RHODE ISLAND FOUNDATION

FEATURED MISSION INVESTING STRATEGY	<ul style="list-style-type: none"> ➤ Invested equity in for-profit HMO to retain local service. ➤ Capitalized revolving loan fund managed by public-private partnership to revitalize downtown historic district for arts and entertainment and mixed-income housing.
INVESTMENT STRUCTURE	<ul style="list-style-type: none"> ➤ Converted equity interest into debt when the acquired HMO became a nonprofit organization. ➤ Below market-rate, long-term loan to be repaid from the loan fund's successful loan performance.
GOALS OF THE STRATEGY	<ul style="list-style-type: none"> ➤ Retain health care for state's vulnerable populations and communities. ➤ Revitalize historical downtown retail and mixed-income housing assets.
IMPACT	<ul style="list-style-type: none"> ➤ 76,000 Rhode Island residents retaining or gaining HMO care. ➤ Over 40 retail, restaurant, arts and service establishments in downtown first floor space and three mixed-income, artist live-work projects.
INITIAL CHAMPIONS	Management–Health Plan PRI was suggested by the plan's CEO to the foundation's CEO
LESSONS LEARNED	<ul style="list-style-type: none"> ➤ Invest equity or debt when strategic opportunities present themselves. ➤ Interest donors in providing mission investments, where possible. ➤ Price debt at spending rate to fund grants with interest income.

“The Rhode Island Foundation is both a financial institution and a charitable organization. On one hand, we must be bank-like, to ensure that the charitable dollars entrusted to us last forever. That requires long-term investment strategies. On the other hand, our core mission is to serve the community. That requires the Foundation to maximize dollars available today.”²⁰

— Rhode Island Foundation Annual Report, 2007

safeguarded access to care for the state’s most vulnerable populations by helping create a state-focused, non-profit, financially stable insurer. In partnership with 21 community health centers statewide, the plan has steadily increased its reach, more than doubling the number of enrolled patients from 36,000 to 76,000. It was rated the best Medicaid health plan in the United States in 2006 and was selected by the Robert Wood Johnson Foundation as one of two health plans to address racial and ethnic health disparities through medical interpreter reimbursements, standards and training. The plan converted to nonprofit status soon after the investment, at which point the foundation restructured its equity holding to a 20-year loan; the plan pays interest quarterly and amortizes principal with repayments of \$500,000 every five years. The foundation made the loan with unrestricted funds priced at its spending rate of 5.75 percent so that interest payments could fund grants as investment income normally would. The foundation returns repayments of the loan principal back to unrestricted funds.

The Rhode Island Foundation also provided a \$9 million PRI to capitalize a revolving loan fund managed by the Downcity Partnership, a supporting organization of the foundation that seeks to enhance the historic character of the city’s downtown and strengthen its viability as a diverse arts and entertainment district. Loans made through the partnership support retail improvements and mixed-income housing, including space for artists seeking an affordable live-work environment. The foundation initially managed these loans in-house, but to better implement the program it later opted to partner with two existing nonprofit organizations—the Providence Revolving Loan Fund and the Providence Foundation, which markets the loans as part of its mission to spark a vital downtown.

The Rhode Island Foundation evaluates potential PRIs on a case-by-case basis, often looking to its donor base to identify those who might be interested in funding particular loans. Donors have funded loans to public radio and guaran-

teed loans for a local theater, the philharmonic and a health care agency.

RECOVERING FROM DISASTER ON THE GULF COAST

Hurricane Katrina devastated the coasts of Louisiana and Mississippi, with the resulting floods displacing hundreds of thousands of people. Many had been living in conditions of poverty so dire, and so removed from the public spotlight, that their rediscovery shook the nation’s self-image and unleashed an immediate and immense outpouring of support. Experienced recovery experts and wise locals knew that the real work would take many years. More than four years later, with rebuilding efforts still under way, mission investing is proving to be an important tool as the region “recovers, rebuilds, reforms and renews.”

Under the leadership of two community foundations in Louisiana, as well as national foundations and local and national intermediaries, some recovery resources are being invested with an eye to increasing minority home and business ownership for the long horizon and creating mixed-income communities that include quality, affordable rental units along with home ownership opportunities. There has also been cross-fertilization of investing techniques, with mission investing structures being adapted in new ways to bridge and extend resources:

- Working with national foundations, the **Greater New Orleans Foundation** created a \$25 million Community Revitalization Fund to develop and support New Orleans’ housing production system post

I like to think of organized philanthropy as the source of at least five forms of assets: 1) conventional capital; 2) social capital; 3) intellectual capital; 4) moral capital; and 5) reputational capital. There is opportunity for creative leadership in managing each of these assets, beginning with conventional capital. We tend to see ourselves as grantmakers. I wonder how much our impact would increase if we started to see ourselves as harnessing all of our financial power to achieve our mission.

— Dr. James A. Joseph
Chairman, Louisiana Disaster Recovery Foundation
Former Ambassador to South Africa
Trustee, F.B. Heron Foundation

Katrina. Adding tools beyond traditional grantmaking to its toolbox, the Community Revitalization Fund has begun to make recoverable grants and guarantees to ensure that city planning and a range of housing developments move forward. National foundations have also worked with intermediaries and the State of Louisiana to adapt a housing acquisition fund model that lets affordable housing developers move quickly on site acquisition as properties become available.

- The Gulf Coast Rebuilding Challenge uses the Certificate of Deposit Account Registry Service (CDARS®) to enable investors nationwide to place fully insured deposits of \$1 million to \$5 million for five years through any of 35 eligible Gulf Coast community banks.
- The National Federation of Community Development Credit Unions assists investors in placing insured deposits in Gulf Coast CDFI credit unions.
- Jewish Funds for Justice, a national identify fund that pools low-interest loans from Jewish philanthropic investors, has supported CDFI banks and credit unions with investments from donors interested in jump-starting small business and neighborhood recovery throughout the region.
- The **Baton Rouge Area Foundation** is advancing a triple-bottom-line model for real estate investing to create mixed-income communities and commercial areas conducive to social, environmental and financial opportunity for all. It is partnering to redevelop the St. Bernard housing project in New Orleans as a mixed-income community. Modeled after Eastlake in Atlanta, the new neighborhood will mix market-rate and affordable homes around a public golf course. Profits from golf will be used to help build community.



With 2008 financing from Liberty Bank & Trust, Rob  t supermarket brings fresh food to one of New Orleans' most distressed communities.

The project extends the foundation's successful track record of real estate development in Baton Rouge, where it helped rehab a downtown hotel and convert a mall into an office park; these projects represent over 1 million square feet of commercial redevelopment and employ more than 6,500 people. The returns on each of these projects—in the high single digits—validate the triple-bottom-line business model, helping the foundation seek social, environmental and financial performance from its market-rate developments.

MISSION INVESTING ON THE GULF COAST ADVANCING REFORM

"The genius of philanthropy is its pluralism. The Louisiana Disaster Recovery Foundation (LDRF), Louisiana's Fund for Louisiana's People, has supported nonprofit organizations working to provide not only relief and recovery, but also reform and renewal. Our initial focus was almost exclusively on saving and rebuilding lives. Now we have turned our attention to ensuring that all citizens are able to participate in deliberations about their future by strengthening the Louisiana nonprofit sector so that it has a seat at the table with policymakers and providing support for economic development, housing, health and education.

The lessons we have learned in Louisiana are lessons for the nation. Hurricane Katrina gave poverty and inequity a human face. These issues inform the broader dimension of our work and its impact. We believe that the best way to demonstrate the efficacy of our democracy is to prove that it can work equitably for all of our citizens. The efficacy of our democracy should also be manifest in equitable access to capital and financial services, while the efficacy of our philanthropy should be manifest in the creative leadership we bring to the management of all of the assets at our disposal.

I like to think of organized philanthropy as the source of at least five forms of assets: 1) conventional capital; 2) social capital; 3) intellectual capital; 4) moral capital; and 5) reputational capital. There is opportunity for creative leadership in managing each of these assets, beginning with conventional capital. We tend to see ourselves as grant-makers. I wonder how much our impact would increase if we started to see ourselves as harnessing all of our financial power to achieve our mission. At the FB. Heron Foundation where I serve as a trustee, we have decided that we should put the weight of our financial resources to work in service to our mission, and we have done so while continuing to grow our assets for use in perpetuity."²¹

— Dr. James A. Joseph
Chairman, Louisiana Disaster Recovery Foundation
Former Ambassador to South Africa
Trustee, FB. Heron Foundation

SNAPSHOT: FOUNDATION PARTNERSHIPS FOR DISASTER RECOVERY ON THE GULF COAST

	GREATER NEW ORLEANS FOUNDATION	BATON ROUGE AREA FOUNDATION	NATIONAL FOUNDATIONS & IDENTITY FUNDS	LOCAL INTERMEDIARIES
FEATURED MISSION INVESTING STRATEGY	Guarantee of the closing price of Low Income Housing Tax Credits for the redevelopment of 800 units of public housing as part of a 1,500-unit, mixed-income development.	Triple-bottom-line real estate development.	<ul style="list-style-type: none"> ➤ Aggregate investment capital from national base of socially motivated donors to reinvest in local intermediaries. ➤ Create special purpose new intermediaries. 	<ul style="list-style-type: none"> ➤ Liberty Bank & Trust ➤ ASI Federal Credit Union ➤ Enterprise Corporation of the Delta–Hope Federal Credit Union, including as part of Louisiana Disaster Recovery Foundation’s Collaborative for Enterprise Development.²² ➤ Louisiana Loan Fund
INVESTMENT STRUCTURE	<ul style="list-style-type: none"> ➤ Guarantee backed by grant monies from foundation’s Community Revitalization Fund. ➤ No disbursement unless guarantee is called. 	Acquisition and rehab of large vacant commercial properties in catalytic locations.	<ul style="list-style-type: none"> ➤ Insured deposits in banks using the CDARS® program or in credit unions. ➤ Loans to new nonprofit intermediaries. 	<ul style="list-style-type: none"> ➤ Insured deposits in CDFI banks and credit unions above. ➤ Low-interest loans to the newly created Louisiana Loan Fund.
GOALS OF THE STRATEGY	Hedge risk that a project may stall if the Low Income Housing Tax Credits are not sold at a price that provides sufficient equity (cash cushion) to enable the developer to secure the additional financing needed to complete the project.	Create real estate developments that anchor the revitalization of distressed areas, creating jobs for local residents and attracting additional, commercial investment to the area.	<ul style="list-style-type: none"> ➤ Link national institutional and individual investor resources and experience to local financing needs. ➤ Move quickly to capitalize rebuilding efforts and transfer deal-structuring skills. 	<ul style="list-style-type: none"> ➤ Banks and credit unions: Finance a range of household, small business and organizational needs; provide access to range of asset building financial services, including savings and affordable remittances. ➤ Louisiana Loan Fund: enable non-profit and for-profit affordable housing developers to quickly move on site acquisition.

SNAPSHOT: FOUNDATION PARTNERSHIPS FOR DISASTER RECOVERY ON THE GULF COAST

	GREATER NEW ORLEANS FOUNDATION	BATON ROUGE AREA FOUNDATION	NATIONAL FOUNDATIONS & IDENTITY FUNDS	LOCAL INTERMEDIARIES
IMPACT	<ul style="list-style-type: none"> ➤ Creation of a 1,500-unit mixed-income community that includes quality affordable rental units and green building practices (healthy and energy-efficient materials and systems). ➤ Construction near schools to emphasize education as the bedrock of the neighborhood. ➤ Restoration of the historical street grid for access to area amenities and supportive services. 	<ul style="list-style-type: none"> ➤ Over 1 million square feet of commercial real estate rehab. ➤ 6,500 permanent jobs created. 	<ul style="list-style-type: none"> ➤ Almost \$13 million of loans approved for site acquisition or pre-development for more than 2,300 affordable units. 	<ul style="list-style-type: none"> ➤ Over \$390 million in more than 18,000 new loans, many of which were rescue loans from sub-prime and predatory lenders, and most of which helped local households, small businesses and nonprofit organizations recover from disaster on a solid footing.
INITIAL CHAMPIONS	Management, along with national funders contributing the foundation's Community Revitalization Fund.	Management and board.	Management and boards.	Management and boards.
LESSONS LEARNED	A foundation can catalyze financing and transformational community development without necessarily disbursing cash.	<ul style="list-style-type: none"> ➤ Community is created by the built environment. ➤ Development must integrate economic levels to create true community, providing upward mobility and cultural exchange. 	<ul style="list-style-type: none"> ➤ Seek one set of legal documents for all investors. ➤ Build flexibility into legal documents to accommodate unexpected circumstances as the rebuilding process proceeds. 	Cooperation can help mobilize more money than competitive deals.

“Liberty Bank & Trust is an FDIC-insured, African American-owned, CDFI bank that has successfully used the range of government rebuilding and incentive programs to help finance New Orleans’ comeback. We employ standard and innovative methods to prudently finance minority businesses, churches, schools and low- to moderate-income homeowners, who have been Liberty’s core customers for over 35 years. Private sector and philanthropic partnerships give us additional, critically needed tools to build minority wealth, increase capacity and grow jobs across these sectors, which improves the quality of life for all as New Orleans rebuilds.”

— Alden J. McDonald, President,
Liberty Bank & Trust, New Orleans



Liberty Bank & Trust, a New Orleans-based, African American-owned, CDFI bank, rebounded from hurricane damage in its branches to serve customers dispersed throughout the region and nation.

CONCLUSION

“The question of how an organization can invest its assets in ways that advance, rather than sidestep—or at worst, undermine—the resulting grant dollars that it spends is common to many foundations. But it’s not a new subject at the Vermont Community Foundation. It has been the topic of thoughtful discussion and successful action since 2001, when the foundation’s board of directors first requested that five percent of its invested assets be invested to directly benefit Vermont. Two years in development, this well-established community investing component now includes low-interest community development loans, high-quality bonds made up of low-income mortgages and start-up business ventures. But you can’t buy a mutual fund that consists only of Vermont-based direct investments in low-income communities. You have to be committed to finding the opportunities and making it work. One solution involved working with intermediary organizations.”

— Faith Brown, Executive Vice President for Finance and Operations, The Vermont Community Foundation

“When a national foundation decides where to allocate mission investment dollars, the involvement of local partners—particularly community foundations—makes a critical difference.”

— Christa Velasquez, Director of Social Investments, Annie E. Casey Foundation

Community foundations enact their commitments to coordinated impact and community leadership on a daily basis. Many of them are looking to solidify these efforts by adding mission investments in institutions and projects that benefit underserved urban, rural and reservation communities and are managed by the leaders of these communities, and by engaging established leaders from their local African American, Latino, Asian, Native American and rural

communities to help guide long-term investments in their communities. The success of these strategies—combined with heightened challenges posed by broader economic conditions—suggest it is more important than ever for community foundations to explore and use the full menu of available financial and leadership resources.

The stories suggest that community foundations can more broadly deploy leadership and financial resources through



EBALDC projects build community in the East Bay.

mission investing in ways that are financially sound and yield benefits across the three dimensions of place, race and space.

PLACE

Community foundations are investing collaboratively to bring about a more equitable distribution of financial opportunity in their places. They can invest their resources directly or leverage their assets to increase the flow of capital to historically excluded communities, financing minority-owned and other small businesses, job creation, affordable housing, environmental justice and the range of human services from education to health care.

RACE

Community foundations are using both the strategy and processes of mission investing to ensure that inclusion applies not only to foundation boards and program beneficiaries, but also to the ownership, management and focus of organizations the foundations backs as a vendor or investee. This includes seeking African American, Latino, Asian, Native American and other representative leaders as managers of high performing investment funds, businesses and nonprofit organizations as well as for their deep understanding of how their communities work. They are key advisors and experts in identifying the range of local business, housing, health care, education and economic development opportunities

that will improve the community and generate long-term target financial returns.

SPACE

Community foundations are finding ways to use mission investing tools to expand the vision for healthy communities to ensure that they are inclusive and to distinguish themselves in the marketplace. The practice of mission investing expands the table that a community foundation can set, allows for new opportunities in which different members of a given community can work together for mutual benefit, and recharges the engines of community wealth creation to ensure that philanthropy can be sustained for the long-haul.

Community foundations considering mission investing and social justice need not strike out on their own. On the contrary, community foundations in the United States have consistently shown themselves willing and able to work collectively. From the Community Foundations Leadership Team to CF Leads, these foundations recognize the strength and wisdom that lies in their numbers. This track record for joint work bodes well for participating foundations, as there are ready-to-move networks when new opportunities and engaged leadership come along. Specific resources and networks are also available on social justice philanthropy and mission investing (see Appendix D).

FROM CHINATOWN TO DIVERSE COMMUNITIES

“The East Bay Asian Local Development Corporation (EBALDC) was created 1975 around the dream of buying and preserving a deteriorated warehouse in Oakland's Chinatown to house social services and businesses. The Asian Resource center is now home to EBALDC, various nonprofit agencies, retail businesses, medical facilities, school district classes and the Asian Resource Art Gallery. EBALDC has developed over 1,400 affordable apartments and townhouses in 13 developments, of which five are historic structures; 164 first time home ownership units; and 300,000 square feet of space for community organizations, resident services, childcare and small businesses. In 1999, EBALDC created the Neighborhood Economic Development Department to empower diverse low-income individuals, families, businesses and community organizations by mobilizing resources and facilitating collaborations in Family Economic Success, Resident Services and Community Planning and Organizing. PRIs have been a key resource for EBALDC's success.”

— Lynette Jung Lee, Executive Director
East Bay Asian Local Development Corporation



First American International Bank, an Asian-owned CDFI bank in New York City, provides first-time mortgages and financial services to new Asian immigrants.

There are many opportunities for community foundations to expand their individual and collective impact, leadership and reach in the decades ahead. Some funders are already reaping the value of using new tools and engaging new voices as they commit themselves to the best future for the people and places they serve. As we add this report and related tools to www.communityphilanthropy.org, we hope others will find models and guidance to do so.



(Top) The Lakota Fund has made three loans to Andre Mills for his woodcutting and delivery business, which has a contract to serve the elderly of the Pine Ridge Reservation. Each new loan is larger in size as Mills pays off the previous one. (Bottom) Financing from the Lakota Fund helped Frank Murdock (right with son, grandson and an employee) to grow Frank Murdock & Sons from an electrical company started in the back of his pickup truck to a family-owned business with million dollar contracts working out of a large building on the Pine Ridge Reservation and employing over 20 Native Americans.

TRANSFORMING RESERVATION ECONOMIES

"Twenty years ago I joined a group of people from across the reservation to talk about how we could change the economic situation our people have lived in since our reservation was formed in the late 1800s. At the time, there were only two Native American owned businesses on the entire reservation, an area approximately the size of the state of Connecticut. We created Lakota Funds first by working to create a new economic vision for our people without the pain of poverty and dependency. A vision of a flourishing tribal community with businesses owned by tribal members, where we would not have to drive 50 to 100 miles to buy basic necessities, like healthy food or clothes, or even to get a tire fixed. Clear and simple, we set out to create a private sector economy where our people could use the creative entrepreneurial spirit that has helped us survive for generations and pursue a Native American version of the American dream.

We started with a Circle Banking project to help our local artists with loans of up to \$500 and taught them the basics of business. The work was groundbreaking and hard. Eighty five percent of our borrowers had never had a checking or saving account, 75 percent had never had a loan, 95 percent had no business experience, or even a job. We developed a ten-week basic business curriculum that gave people a look inside the challenges of running their own business. The program took off, and more people came with business ideas, goals and needs. We helped one young man start the first hair salon on the reservation; another invested in a buffalo herd, and another his own construction company. We worked with Rosalie Spotted Eagle, whose handmade star quilts are among the most beautiful. Over the last 20 years, with the help of Lakota Funds, she has built a successful business and paid back 16 small loans.

As more of our people sought business as a valid alternative to living in poverty, the demand for capital grew. We increased our loan amount to \$25,000 and then \$200,000, allowing us to help finance a convenience store in Oglala, a construction company in Kyle, several businesses that provide tire repair, restaurants and the first motel on the reservation. As I look back over the last 20 years, I am amazed at how far we have come."

— Elsie Meeks, Chairperson, Lakota Funds

1. Rockefeller Philanthropy Advisors, *Philanthropy's New Passing Gear*, 2008.
2. Community Foundations of Canada, *Strategies for Social Justice and Discussion Guide*. Our framing takes into account CFC's perspective that three core elements of racial equity are place, people and policy.
3. All reports, tools and *Future Matters Updates* from *On The Brink of New Promise: The Future of U.S. Community Foundations* are available at www.communityphilanthropy.org.
4. http://foundationcenter.org/gainknowledge/research/pdf/fy2008_highlights.pdf
5. <http://www.grantcraft.org/index.cfm?pageId=840>. This guide was developed in partnership with the Philanthropic Initiative for Racial Equity.
6. CFED, *Assets & Opportunities Special Report: Net Worth, Wealth Inequality and Homeownership in the Bubble Years*, 2008.
7. www.futurefundneo.org/page10474.cfm
8. www.unnaturalcauses.org/assets/uploads/file/UC_DiscussionGuide_Intro.pdf
9. Examples of tracking are at the following websites: Boston, www.tbf.org/indicators/public-health/indicators.asp?fid=209&fname=Race/Ethnicity&rid=1249; Cleveland, www.futurefundneo.org; <http://demographics.marin.org>; Seattle, www.seattlefoundation.org/page28157.cfm; Vermont, www.understandingvt.org. The Cleveland Foundation and its partners in the Fund for Our Economic Future are incorporating findings into their grant and investment strategies; the Seattle Foundation explains its Healthy Communities framework to donors to help them refine giving and possible mission investing strategies.
10. www.wkkf.org/default.aspx?tabid=1153&CID=415&lni=5000499&NID=269&LanguageID=0
11. The Emerging Manager & Financial Service Provider Database includes information on more than 700 investment firms, including money managers, private equity funds, private equity fund of funds, private real estate investments firms, real estate investment trusts, hedge funds, hedge fund of funds, consultants, emerging manager program managers, broker dealers and research firms. See www.alturacap.com.
12. Timothy Bates and William Bradford, *Venture Capital Funds Investing in Minority-Owned Businesses: Evaluating Performance and Strategy*. Ewing Marion Kauffman Foundation, 2008.
13. "The three million minority-owned firms in the United States generate annual revenues of \$700 billion, an increase of 126 percent over the past decade. This revenue translates into more jobs for minorities. Research conducted by Wayne State University Professor Timothy Bates shows that the average white-owned firm located in a predominantly minority community employs a work force that is 35 percent minority. In contrast, a minority-owned firm in a minority community will employ a work force that is more than 85 percent minority. When minority entrepreneurs succeed, they also increase the chances of other minorities to do the same. When the study examined non-minority communities, the findings indicated that white-owned firms employed fewer than 15 percent minorities, while minority-owned firms in these same locations hired 72 percent minorities." www.kellogg.northwestern.edu/kwo/win04/indepth/theory.htm
14. <http://www.fordfound.org/archives/item/0198>.
15. Kramer, Mark and Cooch, Sara, *Compounding Impact*, 2007. www.fsg-impact.org/ideas/pdf/485_CompoundingImpact_MissionInvestingbyUSFoundations.pdf
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17. Speech by Jack Hopkins, www.aaacf.org/JackHopkinsRemarks.pdf.
18. www.tbf.org/uploadedFiles/tbforg/About_TBF/Financial_Information/Proxy%20Voting%20Guidelines.pdf
19. Although the Barberton Community Foundation sponsors donor-advised funds and other public fundraising, it is not a community foundation proper (which must derive at least 30 percent of its budget from public support). Instead it is a supporting organization of the City of Barberton, its school district and its health district. The foundation calculates the return to the city on its PRIs in the range of 20 percent, based upon the nominal loan interest of 4–5 percent paid to the foundation, increased city income and real estate taxes paid by business borrowers and income taxes paid by their new employees.
20. <http://www.rifoundation.org/AboutUs/Publications/tabid/201/Default.aspx>
21. www.louisianahelp.org/docs/ldrf-3yr-review.pdf, http://www.dvg.org/aboutgp/Joseph_08Speech.pdf, written communication with authors, 2009.
22. www.cednola.com/about

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Seattle affordable housing development with market-rate financing, Community Capital Management

Baton Rouge Bon Carre Mall before and after rehab, Baton Rouge Area Foundation

Branch office, Latino Community Credit Union

Woman seated in manufactured home, New Hampshire Community Loan Fund

Vermont farmworker, The Vermont Community Foundation

Rosewood affordable housing development, Kalamazoo Community Foundation

Northside grocery store, Kalamazoo Community Foundation

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Liberty Bank branch interior, post Hurricane Katrina, Liberty Bank & Trust

Robért supermarket, Liberty Bank & Trust

First American International Bank branch, First American International Bank

EBALDC montage, East Bay Asian Local Development Corporation

Frank Murdoch & Associates, Lakota Funds

Andre Mills, business owner, Lakota Funds

APPENDIX A—MISSION INVESTING GLOSSARY

Terminology in the field of mission investing continues to evolve as the field takes shape. Some of the most commonly used terms are defined below. Terms with strict legal definitions are noted.

TERM	COMMON DEFINITION
Aligned investing	The use of all three approaches of social investing—screening, shareholder activism and proactive investing—to engage all of a foundation’s financial resources in achieving its goals.
Alternative investing	A term used in the early years of the social investment movement to refer to proactive investing and particularly community investing. The term is now used in the conventional financial services arena to refer to asset classes other than the U.S. stock market, such as international stocks, hedge funds, private equity and real estate.
Asset allocation	A conventional investment discipline that aims to balance risk and reward by apportioning a portfolio’s assets according to an investor’s goals, risk tolerance and investment horizon. Different asset classes, such as—equities, fixed-income bonds, and cash and equivalents (see following), present different levels of risk and return and will perform differently over time. ¹
Asset class	A group of securities that exhibit similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds) and cash and equivalents (deposits or money market instruments). Each asset class is expected to reflect different risk and return investment characteristics and will perform differently in any given market environment. ² In practice, the range of asset classes is more varied, and foundations have made mission investments in a reported 18 asset classes, including various types of guarantees, deposits, debt, fixed-income securities, public and private equity, commodities and real estate. ³
Blended value investing	A market-based approach to addressing challenges facing the global community by engaging capital in creating sustainable, long-term solutions to these challenges. Some practitioners refer to such strategies as “blended value” since they view the value being created as neither solely economic nor solely social, but a blend of both. ⁴
Business-related investing (BRI)	A term used by the Kalamazoo Community Foundation to refer to investments in for-profit entities such as venture capital limited partnerships that foster the growth of new business enterprises, thereby increasing the tax base and lessening the burdens of government in the greater Kalamazoo region.
Certificate of Deposit Account Registry Service (CDARS)	A proprietary service through which investors can extend Federal Deposit Insurance Corporation (FDIC) insurance on certificates of deposit at Community Development Financial Institution (CDFI) and other banks to up to \$50 million per depositor. www.cdars.com
Community Development Corporation (CDC)	Nonprofit organizations devoted to revitalizing housing and commercial opportunities and providing other supportive services in their typically low- to moderate-income communities.
Community Development Financial Institution (CDFI)	CDFIs are non-governmental financing entities with a primary mission of community development that serve distressed communities or underserved targeted populations. The CDFI Fund, an agency created under the U.S. Department of Treasury in 1995, certifies organizations as CDFIs and provides financial support on a competitive basis. As of July 1, 2009, there were 784 certified CDFIs nationwide, including banks, credit unions, loan funds, venture funds and microenterprise organizations. Listings by name, type and state are available at www.cdfifund.gov . See also discussion of CDFIs in Appendix D.

TERM	COMMON DEFINITION
Community investing	Investing that is directed to communities underserved by traditional financial services, providing access to credit, equity, capital and basic banking products that these communities would otherwise lack. In the United States and around the world, community investing makes it possible for local organizations to provide financial services to low-income individuals and households, and to supply capital for small businesses and vital community services, such as childcare, affordable housing and health care (see CRA). www.communityinvest.org
Community Reinvestment Act (CRA)	A federal law enacted by Congress in 1977 to encourage banks to meet the credit and financial services needs of the communities in which they operate, including low- to moderate-income communities, subject to safety and soundness. www.ffiec.gov/CRA/default.htm
Corporate social responsibility (CSR)	Corporate social responsibility encompasses what companies do with their profits, and how they make them. It goes beyond philanthropy and compliance to address how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm. http://www.hks.harvard.edu/m-rcbg/CSRI/init_define.html
Double (or triple) bottom line investing (DBL/TBL)	Investing that incorporates social and financial criteria (double bottom line) or social, environmental and financial criteria (triple bottom line) into the investment decisionmaking process.
Economically targeted investing (ETI)	Typically a U.S. pension investment that, in addition to garnering a market-rate financial return, seeks to improve regional and/or national economies. Targeted economic stimulation includes job creation, development and savings; business creation; increases or improvement in the stock of affordable housing; and improvement of infrastructure. ⁵
Environmental, social and corporate governance (ESG) investing	An approach to investing that seeks to understand the impacts of environmental and social considerations on financial performance. Widely associated with the United Nations Environmental Programme Finance Initiative, ESG is premised on the idea that environmental, social and corporate governance issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and time. www.unepfi.org
Impact investing	Making investments that generate social and environmental value as well as financial return. ⁶
Individual Development Account (IDA)	Individual Development Accounts (IDAs) are matched savings accounts that enable low-income American families to save, build assets, and enter the financial mainstream. IDAs reward the monthly savings of working-poor families who are building towards purchasing an asset—most commonly buying their first home, paying for post-secondary education, or starting a small business. While the IDA match is grant funded, CDFIs and other intermediaries frequently offer these incentivized savings accounts along with other asset building financial services and credit. www.cfed.org/focus.m?parentid=2&siteid=374&id=374 .
Mission-related investing (MRI)	Generally refers to an investment in any asset class by any private or community foundation with double or triple bottom lines of market-rate financial return on a risk-adjusted basis plus social and/or environmental return related to the mission of the organization. The terms mission-based or mission-driven investing are often used interchangeably, and some foundations use the term interchangeably with mission investing (see following), which includes both market-rate and below market-rate investments.
Mission investing	Financial investments made with the intention of (1) furthering a foundation's mission and (2) recovering the principal invested or earning financial return. ⁷ Includes investments by any private or community foundation, across asset classes and with both market-rate and below market-rate expected returns on a risk-adjusted basis.

TERM	COMMON DEFINITION
Program-related investing (PRI)	<p>Defined in the Tax Code of 1969 as an investment in any asset class by a private foundation in which:</p> <ul style="list-style-type: none"> ➤ The primary purpose of the investment is to accomplish one or more of the charitable, religious, scientific, literary, educational and other exempt purposes described in section 170(c)(2)(B) of the Code; ➤ No significant purpose of the investment is the production of income or the appreciation of property; and ➤ No purpose of the investment is to lobby, support or oppose candidates for public office or to accomplish any of the other political purposes forbidden to private foundations by section 170(c)(2)(D) of the Code <p>Qualifying PRIs are excused from private foundation jeopardizing investment rules, can be counted toward a private foundation's distribution requirement in the year the PRI is made and can be excluded from its calculation of assets to determine the distribution requirement in the years the PRI is outstanding. Income on PRIs is treated as general income, and repayment of PRI principal is treated as a "negative distribution" that must be added to the distributable amount in the year received for recycling in new PRIs or grants. Defaults of PRIs can be treated as grants for accounting purposes (i.e., disbursements that will not repay).</p>
Recoverable Grant	<p>A recoverable grant is a grant that carries a repayment expectation if certain performance benchmarks are met, such as revenue generation or refinancing. Private or community foundations may use recoverable grants where organizational or market factors pose heightened risk and less certain repayment (i.e. the grantee is launching an untested business or presents currency risk). Charitability criteria, due diligence and the need for a term sheet (including repayment terms) are the same as for any PRI, but legal documentation is simpler than for a loan or equity investment. Successful recoverable grants may be refinanced into other mission investments, thereby rewarding performance.</p>
Screening	<p>Avoiding holdings in companies with perceived socially or environmentally destructive practices or seeking holdings in companies with perceived socially or environmentally beneficial or "best in class" practices. Generally refers to holdings in companies that are publicly traded.</p>
Shareholder activism	<p>The voting of proxies or other forms of management engagement to motivate corporate behavior that is socially and environmentally responsible. The term generally applies to engagement of management of companies that are publicly traded.</p>
Social investing	<p>An umbrella term that refers to investing by any investor that incorporates social or environmental as well as financial criteria into the investment decisionmaking process. Foundation mission investing is a subset of social investing, as are the "active ownership" strategies of shareholder activism and screening.</p>
Socially responsible investing (SRI)	<p>Often refers to screening of publicly traded stock portfolios. The Social Investment Forum describes SRI more broadly as an investment discipline that incorporates social and environmental factors into portfolio management through strategies such as screening, shareholder advocacy, community investing and social venture capital. Related terms include 'Double-Bottom-Line Investing,' 'Ethical Investing,' 'Green Investing,' 'Mission-Related Investing,' 'Responsible Investing,' 'Social Investing' and 'Sustainable Investing.' www.socialinvest.org/resources/sriguide/srifacts.cfm</p>
Unrelated Business Income Tax (UBIT)	<p>A federal tax on an exempt organization's gross income (less directly linked expenses) from an unrelated trade or business. As with foundation investments in general, income from certain mission investments can trigger UBIT liability, and both community and private foundations are advised to review UBIT considerations with tax and legal counsel on a case- by case-basis.</p>

APPENDIX B—SUMMARY OF COMMUNITY FOUNDATION MISSION INVESTMENT BY ASSET CLASS

ASSET CLASS											
FOUNDATION	INVESTEES STRUCTURE	BELOW MARKET-RATE					MARKET-RATE				
		PRIVATE EQUITY	REAL ESTATE	SUBORDI- NATED DEBT	SENIOR DEBT	DEPOSITS	GUARANTEES	DEPOSITS	FIXED INCOME	PUBLIC EQUITY	PRIVATE EQUITY
Community Foundation for Greater Atlanta www.cfigreateratlanta.org	For-profit CDFI bank that is minority-owned Fixed-income manager that uses positive screens							CDs in local bank using CDARS program to extend FDIC insurance	Bonds targeted to local low-income areas		
Barberton Community Foundation www.bcfcharity.org	For-profit community banks Nonprofit CDC lender			To CDC that relends to homeowners and small businesses		"Linked deposits" in community banks that relend to local homeowners and small businesses					
Baton Rouge Area Foundation www.braf.org	Triple-bottom-line real estate projects (for-profit entities)		Develops and manages projects that spur economic integration								
Boston Foundation www.tbf.org	Public equities Existing endowment holdings			To CDFIs and developers (not profiled in this report)						Shareholder activism via proxy voting	
California Community Foundation www.calfund.org	Nonprofit CDFI intermediaries Nonprofit land trust		Acquires land; leases for affordable housing development	To national CDFIs that relend to local nonprofits in priority sectors							
Chicago Community Trust www.cct.org	Nonprofit CDFI lender Spun off Nonprofit agency consortium			To CDFI it helped to start that relends to nonprofits regionally To consortium with repayment via savings on group buying and infrastructure							

ASSET CLASS

BELOW MARKET-RATE									
FOUNDATION	INVESTEE STRUCTURE	PRIVATE EQUITY	REAL ESTATE	SUBORDINATED DEBT	SENIOR DEBT	DEPOSITS	GUARANTEES	DEPOSITS	MARKET-RATE
Cleveland Foundation www.clevelandfoundation.org	Nonprofit CDC intermediary (local) Nonprofit CDFIs Nonprofit developer For-profit CDFI bank For-profit small business growth funds Cooperative businesses Real estate		Acquired theaters to avoid demolition and jump-start development of theater district; resold property and recycled funds into revolving PRI pool	To local intermediary that finances CDCs, real estate development, land acquisition To national CDFI for green affordable housing To developer for large multi-family project To worker-owned laundry			CDs in local banks, which back guarantees on small business loans	CDs in CDFI bank to fuel small business lending	Common stock for local expansion and minority-focused lending of CDFI bank based in another city
Kalamazoo Community Foundation www.kalfound.org	Nonprofit real estate developers Land Guarantees of for-profit bank loans For-profit business venture capital funds	Funds that invest in state and regional growth businesses	Land for downtown and neighborhood development	To CDCs and public-private partnerships for local development			First-time mortgages to low-income and minority first-time homebuyers from local banks		
Martin Community Foundation www.martincf.org	Nonprofits, all sectors		Developed and manages multi-tenant non-profit center	To nonprofits, all sectors, emphasizing affordable housing					
New Hampshire Charitable Foundation www.nhcf.org	Nonprofit CDFI <i>Spun off</i>			To CDFI it helped to start that relends for affordable housing, child-care, small business					
Greater New Orleans Foundation www.gnocdc.org	Nonprofit housing project <i>Contingent liability against pledged assets; No upfront cash disbursement required</i>						Pledged grant funds to guarantee pricing on Low Income Housing Tax Credits		

ASSET CLASS

BELOW MARKET-RATE											MARKET-RATE			
FOUNDATION	INVESTEE STRUCTURE	PRIVATE EQUITY	REAL ESTATE	SUBORDINATED DEBT	SENIOR DEBT	DEPOSITS	GUARANTEES	DEPOSITS	FIXED INCOME	PUBLIC EQUITY	PRIVATE EQUITY			
New York Community Trust www.nycommunitytrust.org	Nonprofit CDFI <i>Spun off</i>			To CDFI lender that relends to nonprofits nationally										
Rhode Island Community Foundation www.rifoundation.org	For-profit HMO Public-private partnership			To public private partnership that relends for retail upgrades and mixed-income housing in downtown							Purchase out-of-state HMO to convert to local nonprofit, converting equity in HMO to loan to nonprofit			
Seattle Foundation www.seattlefoundation.org	Fixed-income securities Nonprofit CDFI, organizations, projects			To CDFI and projects in economic opportunity, education and donor-advised initiatives					Bonds targeted to local low-income areas					
Vermont Community Foundation www.vermontcf.org	CDFI credit union, NCUA-insured depository cooperative Nonprofit CDFI loan fund For-profit business venture capital funds Screened public equities fund Public equities existing endowment holdings			To CDFI lender to state affordable housing and small businesses		Insured CDs in CDFI credit union				Vote proxies on endowment holdings Manage an SRI (socially screened) fund	Funds that invest in state and regional growth businesses			

APPENDIX C—MISSION INVESTING RATIONALE AND REGULATIONS FOR COMMUNITY AND PRIVATE FOUNDATIONS⁸

CONSIDERATION	COMMUNITY FOUNDATION	PRIVATE FOUNDATION
CONTEXT: FOUNDATION STRUCTURE	<ul style="list-style-type: none"> ➤ Exempt from federal income tax under Section 501(c)(3) and must comply with its requirements and prohibitions. ➤ A tax-exempt, nonprofit, autonomous, publicly supported, nonsectarian philanthropic institution with 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.⁹ ➤ Classified as public charities under the IRS public support test, based upon 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.”¹⁰ 	<ul style="list-style-type: none"> ➤ Exempt from federal income tax under Section 501(c)(3) and must comply with its requirements and prohibitions. ➤ Generally have endowments from a single source, i.e. family or corporation, and tend not to seek public financial support.¹¹
MOTIVATION	<p>MISSION INVESTING CONSIDERATIONS</p> <ul style="list-style-type: none"> ➤ Charitable impact ➤ Mission alignment ➤ Meet donor demand ➤ Develop donor interest ➤ Raise visibility of investment needs within community ➤ PRI principal that is repaid can be recycled as new PRIs or grants 	<ul style="list-style-type: none"> ➤ Charitable impact ➤ Mission alignment ➤ Resource management, i.e. smoothing distributions ➤ PRI can help meet payout, if desired ➤ PRI principal that is repaid must be recycled as new PRIs or grants
OPERATION	<p>In-house:</p> <ul style="list-style-type: none"> ➤ Best to involve program, financial and legal units ➤ Interaction with donors, boards and management of supporting organizations and agencies may be helpful <p>External:</p> <ul style="list-style-type: none"> ➤ Interaction with trustee bank(s) and a range of financial advisors likely to be needed ➤ Support from investment managers, consultants, intermediaries and legal specialists may be helpful 	<p>In-house:</p> <ul style="list-style-type: none"> ➤ Best to involve program, financial and legal units <p>External:</p> <ul style="list-style-type: none"> ➤ Support from investment managers, consultants, intermediaries and legal specialists may be helpful

CONSIDERATION	COMMUNITY FOUNDATION	PRIVATE FOUNDATION
GOVERNANCE	<ul style="list-style-type: none"> ➤ Board or its sub-committee ➤ Bank trustees may have control over certain funds ➤ Investment decisions may be delegated to staff committees ➤ Donor advisors or supporting organizations make requests 	<ul style="list-style-type: none"> ➤ Board or its sub-committee ➤ Investment decisions may be delegated to staff committees or foundation president
FUNDING SOURCES	<ul style="list-style-type: none"> ➤ Unrestricted funds, supporting organization, donor-advised funds or agency endowments ➤ Expense budget (grant allocation from unrestricted funds) 	<ul style="list-style-type: none"> ➤ Grants budget ➤ Endowment ➤ Dedicated pool
REGULATORY ACCOUNTING AND REPORTING	<ul style="list-style-type: none"> ➤ PRIs are not defined for community foundations by the IRS; the term is applied to have a similar definition as set out for private foundations in the Tax Code of 1969. ➤ Community foundations do not have a minimum distribution requirement but they 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 and only an insubstantial part of its activities may be devoted to a non-charitable purpose. As with its other activities, the community foundation would need to determine for any mission investment that a charitable purpose is being served and no private inurement or excess private benefit is involved.¹² ➤ As with grant requests, community foundations considering an investment from the expense budget to a non-501(c)(3) should first determine whether its organizing documents permit such an investment. Does the charter, certificate of incorporation or deed of trust restrict grantmaking to 501(c)(3) organizations? Is there a provision in the by-laws or a directive from the board that restricts grantmaking or disbursements to 501(c)(3) entities? If no restriction exists, the foundation can consider the request.¹³ ➤ Although the IRS does not define PRIs for community foundations, the Form 990 specifies how to report on them. For 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. For Part IV, Balance Sheets, program-related investments are included with Other Assets.¹⁴ ➤ As with foundation investments generally, unrelated business income tax (UBIT) may arise, particularly from market-rate mission investments that do not meet the IRS criteria for being “substantially related.”¹⁵ 	<ul style="list-style-type: none"> ➤ PRIs are defined for private foundations in the Tax Code of 1969 as investments for which the primary purpose is charitable or exempt as defined under 170(c)(2)(B) of the Code, no significant purpose is the production of income or appreciation of capital and no purpose is lobbying or other political activity prohibited to private foundations under Section 170(c)(2)(B) of the Code. ➤ PRIs can be counted as part of a private foundation's 5% 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. ➤ PRIs are reported in designated sections of the Form 990-PF. ➤ Qualifying PRIs are excluded from jeopardizing investment and excess business holding regulations.

CONSIDERATION

COMMUNITY FOUNDATION

- Although community foundations are not subject to private foundation expenditure responsibility rules, these rules provide guidance to managers who seek to ensure and demonstrate that grants to non-5(c)(3)s are truly charitable expenditures.¹⁶ This guidance is also applicable to below market-rate mission investments.
- Community foundations are not subject to the federal tax prohibitions against self-dealing, excess business holdings or jeopardy investments. They are subject to the federal prohibitions applicable to charitable institutions, such as the restriction on private inurement and excess benefits. As a result, the analysis of federal tax law relevant to mission investment focuses on the rules applicable to private foundations, and not to community foundations. State fiduciary laws, and the Pension Protection Act of 2006, however, apply to private and community foundations alike.^{17, 18}
- The differences between the self-dealing prohibition applicable to private foundations and the rules governing excess benefits applicable to public charities arise because different tax code sections apply. Self-dealing falls under Code Section 4941, which prohibits a broad range of transactions involving a private foundation and its disqualified persons, regardless of the amounts paid or received, and then provides limited exceptions to these restrictions. If a transaction falls into a prohibited category of self-dealing and is not subject to an exception, the transaction is prohibited and an excise tax applies. Excess benefit transactions are defined under Section 4958, which applies to non-private foundation charities, as well as (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 public charities engaged in transactions with its insiders, a key issue is determining fair market value of the benefits received.¹⁹
- Private inurement is a general tax concept that applies across the board to charities as well as certain other types of exempt organizations. While there is no Code section or regulation providing a precise definition, inurement involves benefit to persons with a close relationship to the organization who may be able to exercise control over the organization as a result of this relationship.²⁰
- Under the Pension Protection Act of 2006, certain distributions made from donor-advised funds are treated as “taxable distributions” that are subject to excise taxes similar to those that apply to private foundations—unless the sponsoring organization (i.e., community foundation) exercises expenditure responsibility. These include:^{21, 22}
 - Any distribution to an organization that is not a public charity.
 - Any distribution to a non-functionally integrated Type III supporting organization.
 - Any distribution to a supporting organization that is controlled by the donor or a donor-advisor of the fund.

PRIVATE FOUNDATION

- Unrelated business income tax (UBIT) may arise, particularly from market-rate mission investments.
- Expenditure responsibility is required for PRIs to entities that are not 501(c)(3) or foreign organizations that are able to demonstrate that they are the equivalent of a U.S. public charity.
- Self-dealing rules apply.

APPENDIX D—RESOURCES

A toolkit and an extensive list of guides, resources and networks that support social justice philanthropy and mission investing are available at www.communityphilanthropy.org, a selection of which appears below.

Social justice philanthropy resources include:

- The Denver Foundation, which has developed tools for community foundations and their grantee organizations. www.denverfoundation.org/page30157.cfm
- Black Belt Community Foundation in Alabama, a great example of a community foundation created within a social justice framework. www.blackbeltfound.org
- Community Foundations of Canada, which has developed resources for staff and boards of community foundations and led a nationwide initiative of community foundations focused on social justice. www.community-fdn.ca/socialjustice/index.cfm
- Emerging Practitioners in Philanthropy, which offers social justice workshops. www.epip.org/transformphil.php
- The W.K. Kellogg Foundation, whose Culture of Giving Project has produced several revealing case studies. www.wkkf.org
- GrantCraft, which has developed guides for using racial and gender lenses in grantmaking and for starting a PRI program. www.grantcraft.org
- Other resources include identity-based affinity groups, MDC, JustPhilanthropy, the Philanthropic Initiative for Racial Equity, Rockefeller Philanthropy Advisors, PolicyLink and the Diversity Partnership.²³

Mission investing resources are available from both the philanthropic sector and the social investment industry. Affinity groups and associations include:

- The PRI Makers Network, a trade association of some 200 foundations that make program-related investments or are planning to do so. The network offers a national conference, intensive PRI institute, member database of PRI activity, listserv, webinars and extensive resources at www.primakers.net.
- More for Mission, a campaign started by three private foundations that encourages and supports mission investing from private and community endowments and institutional investors (see sidebar). www.moreformission.org

- Global Impact Investing Network, an association of foundation and other institutional investors that supports collaboration, develops industry infrastructure, and undertakes research and advocacy to foster a coherent impact investing industry. <http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/aboutus/index.html>
- Fiscal Officers & Administrative Group, which draws community foundation interest and increasingly offers mission investing content. www.cof.org/members/content.cfm?ItemNumber=619&navItemNumber=2718
- Social Investment Forum, a national nonprofit membership organization that promotes the concept, practice and growth of socially and environmentally responsible investing. It also sponsors a web-based Community Investing Center, www.socialinvest.org and www.communityinvest.org.
- The CDFI Coalition, a trade association of Community Development Financial Institution intermediaries (CDFIs) whose website provides information about the sector and links to trade associations of different CDFI types, such as loan funds, banks, credit unions, venture funds and microenterprise funds. www.cdfi.org/index.php and www.cdfi.org/index.php?page=datapoint-a. While community foundations will generally want to review partnership opportunities with local CDFIs, not all communities are served by a strong CDFI. There are a number of national CDFIs and CDFI-like intermediaries with particular interests in partnering with community foundations to develop customized mission investing programs, including the Calvert Foundation, Living Cities, NCB Capital Impact, Nonprofit Finance Fund, Opportunity Finance Network (which offers a CDFI locator and CDFI Assessment and Rating Service or CARS™) and ShoreBank.
- Foundations interested in shareholder activism can find guidance at As You Sow Foundation and the Interfaith Center on Corporate Responsibility. www.asyousow.org and www.iccr.org
- The Synergos Institute, Headwaters Foundation, National Committee for Responsive Philanthropy, Grantmakers for Effective Organizations and Grantmakers without Borders provide resources to grantmakers on social justice and mission investing.

MORE FOR MISSION CAMPAIGN

The More for Mission Campaign challenges foundations—private, community and corporate—to increase the percentage of their endowment they allocate to mission investments and to help other foundation endowments do the same. Its approach strives to align foundations' investments with their missions while maintaining long-term targeted financial returns. The campaign seeks to generate \$10 billion in new mission investment commitments over the next five years. Its primary goals are to:

- Support mission investing in practice, with the intent of growing mission investing activity.
- Create a network of foundations that are committed to advancing mission investing within their organizations and beyond.
- Facilitate a robust environment for mission investment by developing a broad range of informational and institutional resources for investors.
- Generate the knowledge necessary for an informed group of investors to leverage their portfolios to support their missions. www.moreformission.org

1. www.investopedia.com
2. *ibid.*, Investopedia.
3. Cooch, Sarah and Mark Kramer, "Compounding Impact: Mission Investing by U.S. Foundations," March 2007. www.fsg-impact.org/ideas/item/485
4. www.blendedvalue.org
5. www.calpers.ca.gov/eip-docs/investments/policies/shareowner/eco-target-inv-prg.pdf.
6. <http://www.globalimpactinvestingnetwork.org/cgi-bin/iowa/investing/index.html>
7. *Ibid.*, Cooch and Kramer.
8. This table is not intended as legal or accounting advice, and we encourage all foundations to consult with attorneys and accountants in evaluating specific strategies or transactions.
9. http://www.cof.org/files/Documents/Community_Foundations/commfounddef.pdf.
10. <http://classic.cof.org/Learn/content.cfm?ItemNumber=740#p>
11. <http://www.usig.org/legal/Types-of-gm-orgs.asp>. Types of private foundations include independent (generally 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.
12. If an investment did not qualify as charitable, it could be deemed a non-prudent 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. Attorney David Levitt, principal, Adler & Colvin, www.adlercolvin.com.
13. Nober, Jane C. "Community Foundations and Grants to Non-Charities," September/October 2001. www.foundationnews.org/CME/article.cfm?ID=1538. See also "Economic Development: A Legal Guide for Grantmakers," Jane C. Nober, 2005, published by the Council on Foundations, which provides legal analysis of charitable tax law, including implications for program-related investments. While reference to subsequent laws such as the Pension Protection Act of 2006 is necessary, the book contains specific guidance for private foundations, community foundations and corporate grantmakers.
14. www.irs.gov/instructions/i990-ez/ar02.html#d0e4546, www.irs.gov/charities/article/0,,id=212213,00.html, http://foundationcenter.org/findfunders/f990_sample.pdf.
15. www.irs.gov/charities/article/0,,id=158843,00.html.
16. *ibid.*, Nober.
17. Stetson, Anne and Mark Kramer, "Risk, Reward, and Social Impact: Demystifying the Law of Mission Investing by U.S. Foundations," October 2008. www.fsg-impact.org/ideas/item/Guide_to_Law_of_Mission_Related_Investing.html
18. <http://www.irs.gov/charities/article/0,,id=161145,00.html>
19. *ibid.*, Levitt.
20. *ibid.*, Levitt.
21. www.mcf.org/publictrust/wegsk_grantmaking.htm. The taxable distributions from a donor-advised fund include any distribution made to an individual and any distribution made for non-charitable purposes.
22. *ibid.*, Levitt. Certain transactions involving supporting organizations and certain transactions involving donor-advised funds will result in "automatic excess benefit transactions" under Section 4958, regardless of the amount involved.
23. Joint Affinity Groups is a coalition of grantmaker associations whose members include Asian Americans/Pacific Islanders in Philanthropy, Association of Black Foundation Executives, Disability Funders Network, Funders for Lesbian and Gay Issues, Hispanics in Philanthropy, Native Americans in Philanthropy and Women's Funding Network. www.jointaffinitygroups.org.