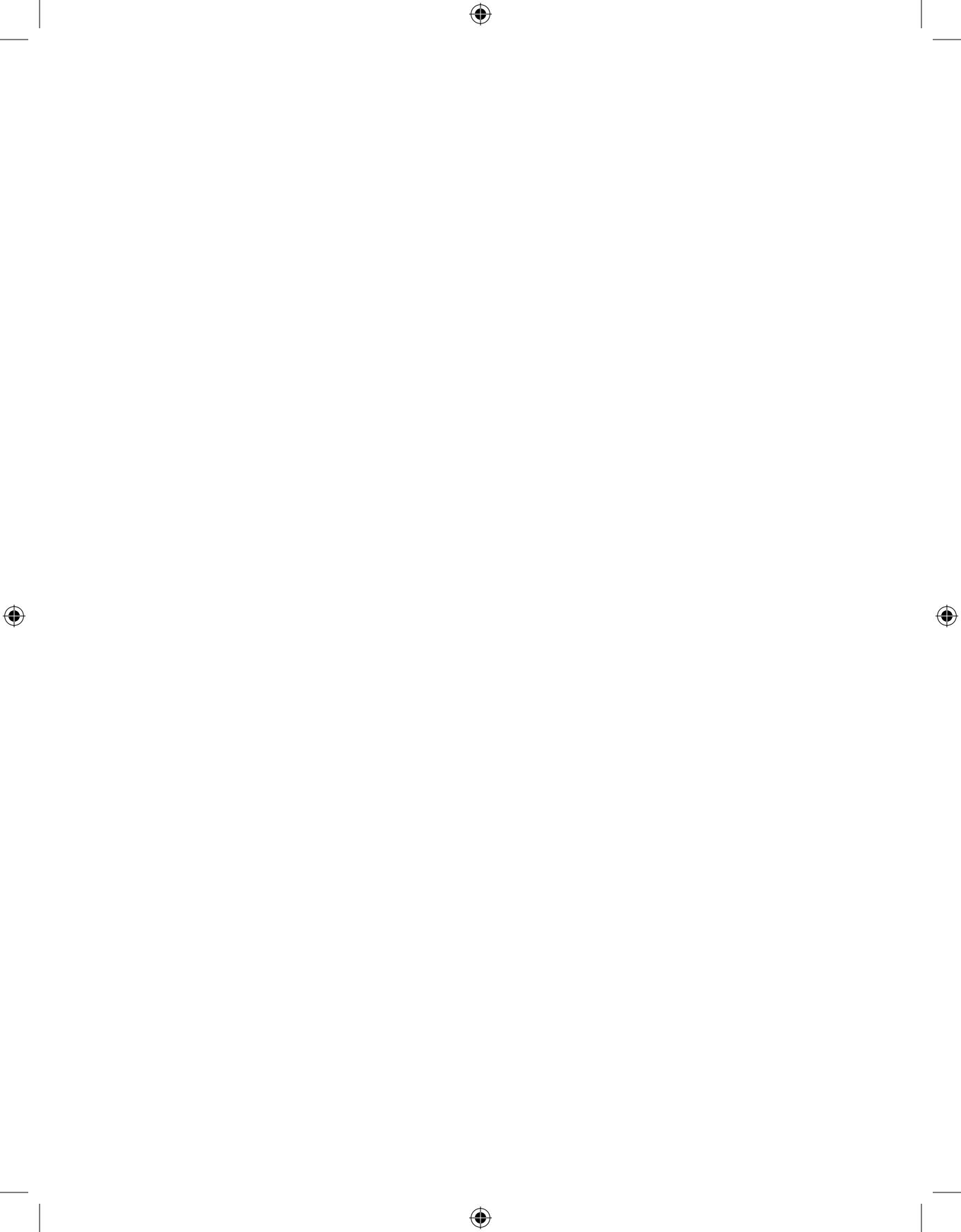




# Maximizing Returns to Colleges & Communities

A Handbook on  
Community Investment



Many thanks to our advisory committee for their time and insight.

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## Executive Summary

Colleges and universities depend tremendously on their local communities in numerous ways, and through community investment, have a unique opportunity to support these communities in turn. This handbook provides an overview of community investment, including a step-by-step guide to implementing a community investment program that maximizes both financial and social returns. The benefits of community investment are numerous:

- *Community investments offer market rate opportunities across the investment spectrum, making them appropriate for a wide range of fiduciaries.* For example, deposits in a community bank, or a community bank with significant engagement with low and moderate income communities, are FDIC insured up to \$250,000 just like any other bank. Moreover, the Certificate of Deposit Account Registry Service (CDARS) program enables institutions to make up to \$50 million in FDIC insured deposits in certain community or community development banks. There are also market rate opportunities in fixed income, public equity, private equity and venture capital. Examples of such investments are included in the handbook.
- *Investment is a critical component of community economic development, strengthening community well-being and town-gown relations.* The primary activities targeted by community investment strategies are affordable housing, small business and microenterprise,

community services, livable-wage jobs, services to economically disadvantaged populations, asset-building for low-income individuals and sustainable development. While charitable giving can also address these issues, investment has the great advantage of preserving the capital for the school.

- *Such investments show alumni and other donors that their gifts are being managed in line with their values.* Donors support their alma maters in part because they feel a connection to the mission of the institution—which typically includes a commitment to serving as a good neighbor to surrounding communities. Community investment can provide tangible evidence of this commitment to donors.

Implementing a community investment program is relatively straightforward. A multi-stakeholder committee involving trustees, administrators, faculty and students can help bring expertise together from across the university to make recommendations to the investment committee of the trustees. Organizations like REC are available to assist in assembling a portfolio and monitoring it over time; sample portfolios are also provided in this handbook. To learn more about the incredible opportunities to maximize financial and social return for your institution and its surrounding communities, please contact REC at [info@endowmentethics.org](mailto:info@endowmentethics.org), or (415) 728-4893.

## About the Responsible Endowments Coalition

The Responsible Endowments Coalition works to foster social and environmental change through university endowments by educating and empowering a diverse community of university members including students, administrators, faculty and trustees. Colleges and universities control over \$400 billion in capital; they also lay claim to strong social missions. By working with their institutions to invest responsibly and proactively, students and other university members have the power to support corporate reform in areas such as human rights, environmental responsibility, and equal opportunity, and to encourage accountability to the communities in which they live and learn by supporting community development and participation. For more information about the Responsible Endowments Coalition and opportunities to get your institution involved, please contact us:

Responsible Endowments Coalition  
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## About the Author

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*This handbook was produced with the generous support of the F.B. Heron Foundation.*

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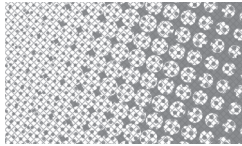
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# Introduction

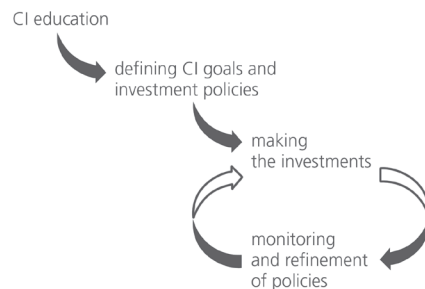
The strategic investment of university endowment funds can improve the quality of life in communities throughout the United States and beyond. This handbook is a guide for college and university administrators, trustees, finance committee members, and all other university stakeholders interested in developing and implementing community investment policies for the institution's endowment. The goals of this handbook are to:

- Define community investing as distinct from, yet complimentary to other strategies of socially responsible investment;
- Make a case for why colleges and universities might choose to allocate a portion of their investments for community investing;
- Provide background on college and university endowment investment;
- Describe the legal framework for trustees embarking on a community investment strategy;
- Present examples of market rate community investment opportunities by asset class;
- Provide a list of firms, consultants, and other resources that a college or university might contact for information on community investments; and

- Offer examples of colleges and universities that have used endowment funds to implement community investment policies.

Embarking on community investment requires four steps: education, policy setting, investment, and monitoring of those investments (see figure 1). This handbook describes each step to build the reader's understanding of how to create a community investment program at their institution. For additional support, we invite the reader to contact the Responsible Endowments Coalition at (415) 728-4893, or [info@endowmentethics.org](mailto:info@endowmentethics.org).

**Figure 1. The Community Investment Process**



## What Is Community Investment?

Community Investment is an investment strategy in which investors and lenders—either institutional, such as colleges and universities, or individuals—direct capital to communities that are underserved by traditional financial services firms.<sup>1</sup> Community investment provides underserved communities with access to credit, equity, capital, and basic banking products that they would otherwise lack while still providing the returns essential to the school's operation. Typically, these investments are made through an intermediary community investment institution. These institutions are described in the following section.

Community investment institutions cover a wide range of activities and investment areas that improve the quality of life for individuals, communities, and the environment. The primary activities targeted by community investment institutions are:

- affordable housing
- small business and microenterprise
- community services, such as child care, education, and health services
- livable-wage jobs for low-income individuals
- international microenterprise
- services to economically disadvantaged populations
- asset-building for low-income individuals
- sustainable development.

Although the above list covers the primary areas targeted by community investments, the field of community investment is not limited to these areas or sectors. Other areas, such as pollution or carbon emission reduction, green technology, or alternative energy investment, can also be considered within the community investment framework.

It is important to note that community investments are not grants or charitable contributions. They are not investments that merely avoid harming people or the environment, such as investments that avoid companies that excessively pollute or whose foreign factories exploit workers or use child labor. Rather, community investments are invest-

ments that have a double or triple bottom line to: 1) benefit the endowment via the financial return on investment, 2) provide social benefits, and 3) have a positive environmental impact. The investments, therefore, are not merely financial. Rather, they both provide a competitive financial return to the college or universities and benefit a community or communities. Although some community investments are made at below market rates of return, this is usually a deliberate strategy in which the investor makes a conscious decision that the social and environmental returns outweigh the somewhat lower financial returns. This handbook focuses on market rate community investments, all of which are appropriate for university endowments under the framework of fiduciary responsibility.

## Why Colleges and Universities Should Consider Community Investments

Although every institution's "town/gown" relationship is unique, they share some common and universal threads. Many colleges and universities are located in and around economically distressed areas. Administrators are keenly aware that their school has a stake in the overall economic well-being of the community. Colleges and universities maintain and enhance their relationship with their town or community in various ways, including employment, tourism, research, in-kind donations, volunteerism, and adult classes.

At times, communities view colleges and universities as tax-exempt enclaves, with students who have little care for or connection to their community. Traffic and parking problems, housing shortages and gentrification, parties and class divisions can cause friction between a school and the surrounding community. Colleges are increasingly aware of these dynamics and are taking steps to mitigate them. Formally and informally, universities are working closely with elected officials, local businesses and other community members to reduce tensions that can occur in town-university relationships.<sup>2</sup> While often community support has come

in the form of outright grants towards community projects, community investment provides a way for school to not only maximize their local impact by deploying significant capital, but also to preserve their capital for the long-term through market-rate investments.

Several examples of a school's investments in its surrounding communities are worth noting:

- Ohio State University incorporated Campus Partners for Community Urban Redevelopment in January 1995 to promote improvements to the neighborhoods around their Columbus campus. The university provides \$650,000 per year for ongoing financial support for Campus Partners' day-to-day operations. The trustees of the school's endowment invested \$20 million in land acquisition for a major mixed-use urban redevelopment project. University bonds were issued for construction of portions of the project.
- Southern New Hampshire University has invested in the New Hampshire Community Loan Fund, supporting local community development efforts and earning an annual return of 4%. For more detail on South New Hampshire University's community investment portfolio, see Appendix 3 of this handbook.
- The West Philadelphia Partnership is a collaboration between the University of Pennsylvania, local health care institutions, companies, community development corporations and neighborhood associations. One of the school's partners, Citizens Bank, committed \$28.5 million in financing to neighborhoods adjacent to the campus. This financing, administered by the bank in coordination with the university, provides home mortgages, home improvement loans, small business loans, interim financing for housing development ventures, an acquisition loan pool for nonprofit developers, and a grant fund for West Philadelphia nonprofit organizations.
- In 1998, Colgate University and the town and village of Hamilton, New York, founded the Partnership for Community Development. This partnership has fostered small business development, provided design help and funding to improve building facades and streetscapes in the five-block business district of downtown Hamilton, helped restore the Village Green, and established retail and marketing support for local arts and crafts. To date, Colgate has provided \$630,000 in funding, which has leveraged over \$1.5 million from private sector, foundation, and government sources.
- Carleton and St. Olaf Colleges partnered with First National Bank of Northfield, Minnesota, and Community National Bank to create the Northfield Community Investment Fund, a \$1.5 million pool intended to assist development and redevelopment projects in Northfield.

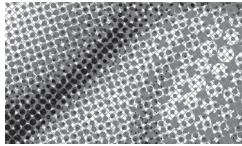
#### EARLHAM COLLEGE (Richmond, IN) Socially Responsible Investing Policy

"Earlham recognizes that it is possible to promote positive social values and behavior that improve human society. Such opportunities should be considered whenever there is a likelihood of advancing institutional values without sacrificing adequate financial returns.

"Examples might be "community-development investment" whereby investments are made in Wayne County or "economically targeted investment" in which investments are made that promote social values. In addition, we anticipate that our investment managers will frequently invest in the securities of companies with records of desirable corporate behavior before that behavior is widely recognized."

- Worcester, Massachusetts's UniverCity Partnership was the result of a taskforce established by Mayor Timothy Murray. The partnership examined best practices and models from cities across the country and recommended ways in which the city of Worcester could better use local colleges and universities for economic development and expansion of the tax base. The taskforce, chaired by Representative Jim Leary, produced the report that led to the establishment of the formal partnership.

Colleges and universities can and do improve communities in countless ways. Given that capital is preserved through community investments, community investment provides a venue for schools to maximize both financial and social returns, and thus can be an extremely attractive way for schools to partner with their local communities.



## Types of Community Investment

Community investments exist in every traditional portfolio asset class, including cash, fixed income, private equity and public equity among others. Appendix 1 at the end of the handbook describes the various asset classes used in building an endowment portfolio. Figure 2 shows the relative risk of each asset class; acknowledging that depending on the particular investment this risk spectrum is not absolute. For instance, hedge funds in particular may run the full risk spectrum depending on the particular strategies used by managers. In this handbook, we focus primarily on four asset classes: cash, fixed-income securities, public equity, and private equity. Most of the community investing (in terms of dollar amount) in the United States falls into one of these four categories

### Community Investment Opportunities

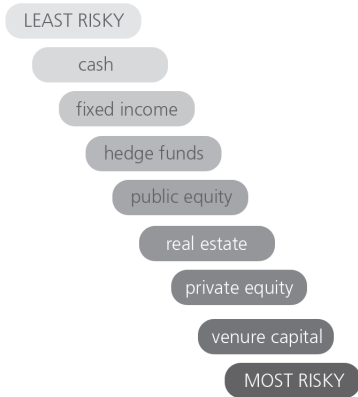
There are a great number of community investment opportunities across the US and internationally, such that schools should be able to find investments that fit their geographic interests, financial needs and asset allocation requirements with relative ease. Although not exhaustive, there are resources and databases available which list a range of community investment institutions and opportunities. These resources include the Community Investing Center, a project of the Social

Investment Forum Foundation; Green America, which maintains a database of institutions appropriate for receiving community investment capital;<sup>3</sup> and the listing of community development financial institutions maintained by the federal Department of Treasury's Community Development Financial Institutions Fund (see next section.) Other useful resources include [www.ncua.gov](http://www.ncua.gov), the National Credit Union Association, and [www.ncif.org](http://www.ncif.org), the National Community Investment Fund.

### Community Development Financial Institutions

The most established group of community investment institutions are Community Development Financial Institutions (CDFIs), a federal designation provided by the U.S. Department of Treasury. There are more than 700 certified CDFIs nationwide.<sup>4</sup> Types of CDFI's are listed below. Colleges and universities should pay special attention to the first two types of institutions, Community Development Banks and Credit Unions, as they offer insured, market rate investment opportunities that are a great place for schools to start in creating a community investment program.

- Community Development Banks (CDBs) are FDIC-insured, for-profit, regulated institutions. They target disadvantaged communities to

**Figure 2. Relative Risk of Asset Classes**

provide banking services, loans, and community revitalization programs. They offer insured depository accounts and certificates of deposit, most of which have competitive returns and are FDIC insured to \$250,000 per account holder. In addition, through Certificate of Deposit Account Registry Service (CDARS), insured deposits of up to \$50 million are possible. CDARS is explained in the ShoreBank case study on page 33 of the handbook. More than 50 CDBs are in operation, with total assets in excess of \$10 billion. There are also opportunities to make equity investments in CDBs.

- Community Development Credit Unions (CDCUs) are cooperative, member-owned, nonprofit, regulated, and insured institutions serving their members in low-income communities. As with CDBs, these credit unions also offer insured deposit accounts and certificate of deposits, similarly priced and insured. More than 200 CDCUs are operating in the United States, with total assets over \$5 billion.
- Community Development Loan Funds (CDLFs) are nonprofit, unregulated, and uninsured institutions. CDLFs administer loan funds for community development purposes and may include multiple lending programs, such as

those targeted to housing, microenterprise, small business, or nonprofit facilities. CDLFs often provide technical assistance with their capital. Many CDLFs accept private investment from both institutional and individual investors. Investments in CDLFs may be at market rates or below-market rates, depending on the institution. More than 300 CDLFs with assets in excess of \$3.4 billion are operating. International microfinance funds typically fall under the CDLF classification.<sup>5</sup>

- Community Development Venture Capital Funds (CDVCs) are funds that make investments of equity and near-equity in small businesses. Both equity and near-equity are forms of “patient” capital, giving companies the funds they need in the early years without requiring the immediate repayment, as is the case with most loans. The typical legal structure of these funds is the limited partnership or the limited liability corporation.<sup>6</sup> Approximately 82 of these funds are operating in the United States, with total assets in excess of \$870 million.

Additionally, community development pooled funds are a type of intermediary that can offer advantages for investors by serving as a “fund of funds,” providing investors with the financial advantages of portfolio diversification, professional management, due diligence investment monitoring, and credit enhancements.<sup>7</sup> Pooled funds also have the capacity to create tailored products, resulting in an investment product that matches each investor’s financial goals and social mission.

Two institutional asset managers who utilize pooled funds and separately managed accounts are Access Capital Strategies and Community Capital Management. Access Capital Strategies, a division of Voyager Asset Management, is a firm that creates secondary markets for community development investments.<sup>8</sup> Founded in 1997, Access Capital Strategies actively manages more than \$615 million in community investments. Access Capital Strategies creates specialized mortgage and asset-backed securities that support low- and

moderate-income home buyers, affordable housing development, education, health care and job creation in underserved communities. Their clients include banks, foundations, health care institutions, pension funds, and universities. Additionally, Community Capital Management is an institutional fixed income manager and a registered investment advisor created to capitalize on its belief that portfolios of government-related securities—that are primarily excluded from the major bond indices—could produce competitive returns while also promoting community development. Founded in 1998, CCM manages more than \$900 million on behalf of foundations, financial institutions, faith-based organizations, pension funds, not-for-profit health care systems, universities and other institutional investors interested in promoting economic and community development activities such as affordable housing, job creation and job training, small business growth, workforce development, and environmental restoration.<sup>9</sup>

Another example of pooled investing is the Community Reinvestment Fund (CRF), a Minneapolis-based, nonprofit organization (see case study on page 35) that operates a national secondary market for community and economic development loans—a market CRF pioneered.<sup>10</sup> CRF purchases economic development and affordable housing loans from community development lenders and pools them into asset-backed debt securities, which it then privately places with institutional investors.

**Figure 3. Community Investing Risk Return Paradigm**

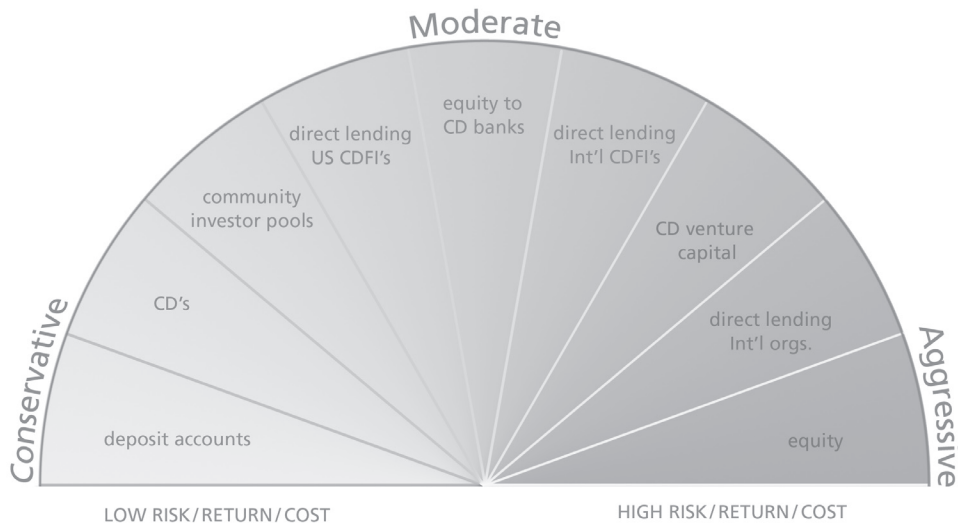
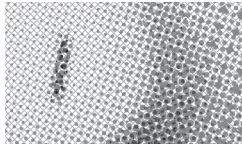


chart concept by  
Frank Coleman, *Christian Brothers Investment Service*





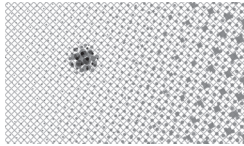


## Returns on Community Investment

The conventional wisdom suggests that community investment returns are below typical market benchmarks. However, when managed according to sound investment principles, community investments have proven to be tremendously competitive investments.

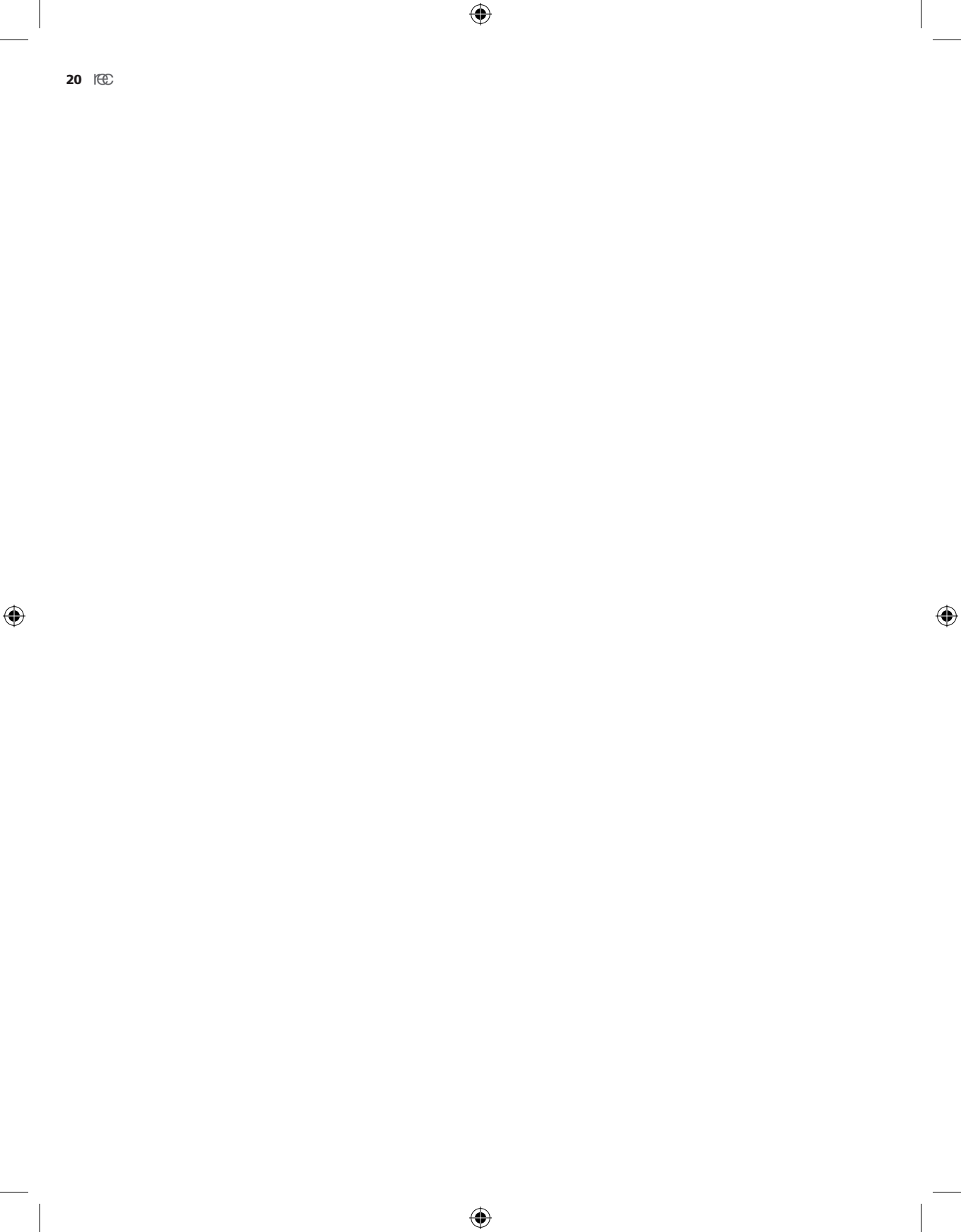
- A January 2006 article of Sustainability Investment News reported that the California Public Employees' Retirement System (CalPERS), the nation's largest pension fund with assets totaling more than \$132 billion, announced that its Single Family Housing Program has been its single highest returning investment category during the last decade (for more, see the case study on page 41). The program has earned more than 20 percent annually since inception.
- The Heron Foundation's total fund performance in 2008 was in the second quartile of the BNY Mellon All-Foundation Universe on a trailing one-, three- and five-year basis, with 40 percent of assets in market-rate, mission-related investments, 9 percent in below market program-related investments, and 5 percent in grants. See case study on page 45 for more information.
- The Delaware Community Investment Corporation's (DCIC) Housing Equity Funds comprise five funds. The corporation has raised \$121 million for 31 developments for older and disabled people and low-income tenants. Some 24 financial institutions have participated in one or more of DCIC's five equity funds. These equity funds have invested more than \$98.9 million in 2,021 affordable, rental-housing units in Delaware. Most projects enjoy close to 100 percent occupancy. The pretax rate of return in DCIC's first four equity funds has been: Fund I, 15.9 percent; Fund II, 14.3 percent; Fund III, 19.3 percent; and Fund IV, 12.2 percent. The proceeds of Fund V were not fully invested at this publication went to press, but the fund's pre-tax rate of return was expected to be approximately 11 percent.
- Pacific Community Ventures (formerly Silicon Valley Community Ventures) began operation in 1999 with a mission to develop and invest in businesses providing economic gains to low- and moderate-income communities in California.<sup>11</sup> They recently raised more than \$40 million for a new investment fund. In the last nine years, the group has invested \$14 million in 10 companies. Its backers include CalPERS. Pacific Community Ventures aims for a return on investment of 18 percent. For more information, see the case study on page 38.

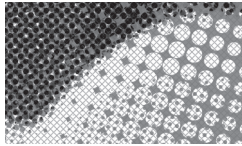




## Fiduciary Responsibilities Associated with Community Investment

College and university endowment staff and trustees are legally required to act in the best long-term interests of their institutions, and it is important to note that community investments can be made in line with this fiduciary responsibility. A review of the research and law on fiduciary duty and community investment reveals no specific prohibition. Given that community investment can occur across multiple asset classes and at various levels of risk, staff and trustees must examine each investment for its risk and prospective return the same way they would for any other type of investment. Some community investments offer little to no risk and a market rate of return. For example, all investment portfolios keep money in cash or cash equivalents. Therefore, a very basic community investment might involve simply buying a certificate of deposit in an FDIC insured community development bank—which from a fiduciary's perspective would have the very same risk profile as any other FDIC insured institution, but with additional social and reputational benefits.





# Steps in the Process of Creating a Community Investment Portfolio

## 1. Establish a Committee on Community Investment

The impetus for community investment can come from the trustees, faculty, staff, or student body, but nevertheless it is important to include all of these stakeholders in the process. Community investment decisions are an excellent educational opportunity for students and also a chance for the university community to be involved in actively applying the school's mission. Toward this end, officials may want to consider establishing a Committee on Community Investment either by creating a new committee or augmenting the duties of a standing one. For schools that already support a committee on investor responsibility, community investment could be merely added to their purview. Some of the issues discussed in this handbook (for example, due diligence, ratings, available instruments, opportunities) may have been addressed during the initial formation of a committee on investor responsibility. Institutions with these or similar committees have already done much of the work required to address the issues that arise when discussing community investment.

Although there is no one correct way to form a new committee if necessary, it will likely be most effective if composed of various sectors of the college or university. At a minimum, several members of the Finance or Investment Committee of the Board of Trustees should be on the committee, or

should be charged with approving the committee's recommendations before implementation. Faculty and staff interested in social finance could be asked to lend their expertise. Student representatives, or a business school investment class, could perform research, join community investment discussions, and gather information on community investment options as committee members. Forming a diverse committee takes advantage of the various experience and expertise university stakeholders bring, and helps create the momentum necessary to implement a new program.

## 2. Develop a Timetable and Workplan

What is a reasonable timetable from idea to investment? Table 1 (on the following page) lists a possible timeline for universities or colleges starting from scratch; that is, as if there were no committee, no policies, and little understanding of community investment. We assume the committee once formed will meet at least quarterly and has the authority to develop its policies and make investments.

### 3. Prepare community investment policies and procedures for approval by finance committee

The committee on community investment may want to develop community investment policies and procedures (see the sample policy on page 25) to help guide the committee when it makes investment decisions, and create a framework the trustees can approve to expedite future investment approval. The first questions most community investment committees might address in writing this policy are:

- How is the endowment currently managed?
- How much money or what percentage of the overall endowment should we commit to community investment?
- Which community investments should we choose?
- How should we choose them?
  - » Expected return
  - » Safety/expected risk
  - » Geography
  - » CDFI type and mix
  - » Alumni connections
- How might these decisions change over time as the fund grows?
- How will our investments fit into the current allocation mix of the portfolio?
- When should we begin and at what level of investment?
- What additional expertise do we need?
- Whose approval is needed to invest?
- How will we define success?

Table 1. Timeline from Idea to Investment

Step/Action	When/Timetable
Agreement on exploring community investment, form committee on community investment	Q1
Research community investment opportunities and policy options	Q2
Draft community investment policies	Q2–Q3
Trustee's finance committee approves community investment policies	Q3
Decision on amount and asset classes for first investment	Q3–Q4
Make investments	Q5
Monitoring of investments made and consideration of new opportunities	Ongoing
Agreement on Phase 2	After Q5

There are no existing templates or preexisting formulas to guide committees. A committee simply needs to make a commitment to proceed incrementally, and to allocate an amount into investments with which they are comfortable in terms of the social and financial impact required.

### 4. Make initial investments

Once an investment strategy has been agreed upon, asset classes decided, and amounts allocated, decision must be made about where to invest. Questions to address include:

- Long or short-term investment?
- Which asset class first?
- Geographically targeted?
- Is the appropriate monitoring process in place?

This might be the time to begin talking to the current investment advisors and seek a more detailed presentation regarding the existing portfolio and opportunities to implement a community investment strategy. If advisors are unfamiliar with community investment and are likely to be reluctant to pursue the community investment agenda, the committee should seriously consider bringing in some outside assistance. Please see Appendix 4 for a list of investment advisors familiar with community investment.

If the committee decides to interview an investment advisor, the following questions should be asked in addition to the school's traditional review process:

- How experienced are you with community investment?
- If you are not familiar with community investment, are you willing to learn about it?
- What is the due diligence process?
- How will the investments be monitored?
- Can community investments be monitored separately, and if so, what are the fees associated with this practice?

The advisor should return to the committee with a range of options, including sample community investment portfolios with different levels of investment. A few sample portfolios are provided below.

## Sample Portfolios

A college endowment may wish to start the community investment process incrementally, that is, by beginning with an investment in a low-risk security, such as a certificate of deposit in a community development bank or community bank with significant engagement with low and moderate

income communities. The transaction costs are low, the return is market rate, and the investment is insured by the FDIC up to \$250,000. The endowment can also safely make multiple deposits under the CDARS program, up to the desired investment amount. Another option would be a deposit in a community development credit union or a credit union with significant engagement with low and moderate income communities. This deposit would be insured through the National Credit Union Share Insurance Fund (NCUSIF) up to \$250,000. NCUSIF is a government backed insurance fund for credit union deposits similar to FDIC insurance for banks.

The sample portfolios below are very skeletal examples, intended to illustrate basic opportunities to implement a community investment program across asset classes, with more specific examples of community investment programs provided in richer context in Appendix 2. To simplify, hedge funds, natural resources, and "other" investments categories are excluded in the following sample community investment portfolios, although community investment opportunities exist in each of these categories. Note also that the investment opportunities listed in the model portfolios are for illustrative purposes only and are not actual recommendations. Please contact the Responsible Endowments Coalition for more information about investment opportunities across asset classes in your local area.

### Investing \$1 million

- Cash: \$500,000 in Certificate of Deposit Account Registry Services (CDARS) with Sunrise Community Banks.

See Appendix 2 on page 50 for an example of a CDARS investment by Macalester College in University Bank of Sunrise Banks). For a complete list of community development banks that participate in CDARS, see [www.communitydevelopmentbanks.org/](http://www.communitydevelopmentbanks.org/). Investments in CDARS can range from \$250,000 to \$50 million. These investments are FDIC insured. Although not CDARS eligible, an

alternative plan would be to invest in a ladder of certificates of deposit with five different community development credit unions (CDCUs) in the region. For a complete list of federally insured CDCUs, see [www.natfed.org/i4a/pages/index.cfm?pageid=833](http://www.natfed.org/i4a/pages/index.cfm?pageid=833). For an example of an investment in multiple credit unions, see School of Community Economic Development memo in Appendix 3 on page 55.

- Fixed Income: \$500,000 fixed-income investment by directly purchasing CRF notes.

See [www.crfusa.com/institutionalinvestors/Pages/whoinvestsinrcf.aspx](http://www.crfusa.com/institutionalinvestors/Pages/whoinvestsinrcf.aspx) for a list of institutional investors in CRF notes. CRF investments can range from \$100,000 to \$25 million.

## Investing \$5 million

- Cash: \$2 million CDARS in the Native American Bank, Denver, Colorado
- Fixed Income: \$2 million in Access Capital Strategies

See [www.voyageur.net/AccessCapital/AboutAccessCapital/default.aspx](http://www.voyageur.net/AccessCapital/AboutAccessCapital/default.aspx) The investment could be made through either the Access Capital Community Investment Fund which has a minimum investment of \$250,000, or through an Institutional Separate Account with a minimum of \$500,000, which allows for greater input on the location and purpose of community investments made.

- Public Equity: \$1 million in the U.S. Community Investing Index (see case study on page 36)

## Investing \$20 million

- Cash: \$7.5 million CDARS in Shorebank (see case study on page 33)

- Fixed Income: \$3 million in the CRF (see CRF/Minneapolis case study on page 35); \$2 million in Community Capital Management (see [www.ccmfixedincome.com](http://www.ccmfixedincome.com))
- Public Equity: \$5 million in the U.S. Community Investing Index (see case study on page 36)
- Private Equity: \$2.5 million in Pacific Community Ventures (see case study on page 38) or \$2.5 million in the Bay Area Equity Fund (see [www.allianceforcommunitydevelopment.org/overview.html](http://www.allianceforcommunitydevelopment.org/overview.html))

## Addressing Challenges in Developing a Community Investment Program

Several roadblocks may develop in forming a community investment committee and advancing its work under the investment committee of the Board of Trustees. The most common are:

- Lack of education: This can be addressed using this handbook, or the material listed in the bibliography.
- Reactive investment stance: If the original idea to implement a community investment program comes from students, investment committee members may be adverse to student involvement in investment decisions. Setting time aside to discuss community investment and develop investment policies and procedures, timelines, and investment horizons should allow mutual understandings to develop among all parties. The decision to formulate a community investment strategy may, in fact, come from trustees or senior management of the university given the economic and reputational benefit involved.



- Unwarranted fear that doing good cannot be profitable: As detailed in this handbook, many community investments are extremely competitive with traditional investments.
- Market fluctuations: Given the current and recent market fluctuations, and stock market losses, committee members may be reluctant to embark on a new investment process. However, community investment can mirror the existing portfolio allocation in terms of both risk profile and asset class. In addition, any sound community investment strategy will begin with relatively small investments and proceed incrementally, monitoring performance along the way. Many community investments are performing very well in the fluctuating market climate. There are several reasons for this, but perhaps the most important is the typically greater due diligence in community investment.
- Transaction costs: Transaction costs of additional knowledge and potential advisor fees may be part of the community investment process, although it does not have to be. As the Southern New Hampshire University case study on page 44 illustrates, investment advisors do not necessarily charge more to place community investments. Additionally, community investment programs generally start out with placements in cash and fixed income; asset classes for which monitoring processes are relatively simple.
- Inertia: It is often difficult to change long-standing institutional policies and practices. If the portfolio is performing well, why change it? However, in today's investment climate, few investment officers can claim endowment growth and may be particularly interested in new types of secure investments that feature double or triple bottom line performance.
- Resistance from existing investment advisors: Most colleges rely heavily on the counsel of investment advisors, who may not have

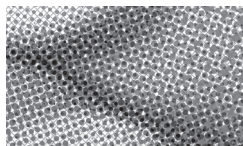
significant experience in community investment. An investment advisor might resist a move toward community investments, particularly if that advisor is unfamiliar with these options. This handbook, among other resources, offer the needed information to advisors, or the committee can consult with an advisor with greater experience in community investment.

## Resources to Support Committee Formation and Investment Placement

As mentioned above, one of the difficulties that endowments and investment funds face in placing community investments is that traditional fund managers and investment advisors often do not have experience incorporating such investments into portfolio management. Some advisors who do not know about the universe of market-rate opportunities available see community investment as perplexing, with high transaction costs and social or community return on investment that is difficult to measure.<sup>12</sup>

However, some advisors have years of experience with community investment, or like Cambridge and Associates have recently established mission-related investment departments in response to the rise in demand from their clients. Organizations such as REC are also ready to provide assistance when a university or college decides to embark on a community investment strategy. For a list of resources in the field, including advisors, intermediaries and non-profit organizations, see Appendix 4 on page 59.





## Sample Community Investment Policies and Procedures by XYZ University

XYZ University will consider investment opportunities that provide underserved communities with access to credit, equity, capital and basic banking products that these communities would otherwise lack.

Community investments are investments in a variety of asset classes that typically generate rates of return commensurate with the overall risk, liquidity, security, and structure of comparable investments while providing additional economic benefits that enhance quality of life and promote community economic development in underserved communities. Accordingly, in cases in which investment characteristics, including returns, risk, liquidity, and compliance with allocation policy, are appropriate, XYZ University will allocate investments that have a substantial, direct, and measurable benefit to economic or community development in [a particular state, the United States, worldwide].

The University will consider community investments that are recommended by its Committee on Community Investment, established by and reporting to the Investment Committee of the University Board of Trustees.

The University sets a target rate of 2 percent of its endowment funds to be invested in community investments. This target rate shall be achieved in a timeframe determined by the Investment Committee in consultation with the Community Investment Subcommittee.

### **Community Investments should typically meet the following criteria:**

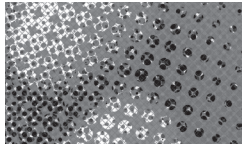
1. Investments should target risk-adjusted, market-rate returns. When evaluating community investment opportunities, the University may consider a very limited number of investments that would return rates below risk-adjusted, market rates of return. Where appropriate, the University may consider acceptable and customary risk management vehicles to reduce risk in community investments.
2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to any particular sector or region. Investments should fit within the framework of the university's overall asset allocation strategy.
3. Investments should be placed with an experienced and capable institution, intermediary or manager through an objective and transparent process.
4. Investments should target a "capital gap" where there are likely to be underserved markets.
5. Investments should be tracked (both investment performance and collateral benefits) and

managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by the University Investment Committee and the Committee on Community Investment (and consultants) with a reasonable expenditure of time and resources. The performance of each investment shall be measured against an appropriate benchmark, to be identified initially in conjunction with the making of the investment and to be modified from time to time to provide a suitable measurement of performance relative to investments with similar levels of risk, liquidity, security, and structure.

The related community economic benefits shall be quantified to the extent possible and measured alongside the anticipated goal of the investment.

### **Proposed investments will be evaluated according to the following factors:**

1. The clarity of the proposed investment or program and its parameters and goals;
2. The extent to which the proposed investment or program will produce the anticipated risk-adjusted return and collateral benefits;
3. The quality, reputation and experience of the investment managers and their ability to implement a proposed program or investment;
4. The quality of controls and reporting systems of the community investment intermediaries and/or projects, including audited financials, risk management systems and reports to investors;
5. The fit within the overall University portfolio and its ability to help achieve the overall investment goal, including reaching the targeted investment level of 2 percent.



## Rating Community Investments

A college or university, accustomed to the traditional rating systems of Moody's, Standard and Poor's, and Fitch and interested in community investments, might feel more secure if the institution or security had a credit-rating. Until recently, the only rating available was through a private investment consultant, usually at a significant cost relative to the investment. But the environment around ratings is changing. In 2004, the Community Reinvestment Fund (see case study on page 35) sold the first Standard and Poors rated asset-backed security, comprised of a pool of community development loans. Since that time, CRF has continued to develop, and offer investors, rated securities. Other institutional managers such as Community Capital Management and Access Capital Strategies offer pooled funds and/or separately managed accounts, which invest in government backed or insured securities and/or institutions with standard credit ratings.

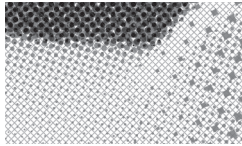
Additionally, in 2004, the Opportunity Finance Network, a trade group of CDFIs, began developing the CDFI Assessment and Ratings Service (CARST<sup>TM</sup>). CARST<sup>TM</sup> is a comprehensive, third-party analysis of community development financial institutions that aids investors in their investment decisions.

CARST<sup>TM</sup> rates CDFIs on two areas: impact performance, and financial strength and performance. The impact performance rating assesses the CDFI's effective use of its financial resources to achieve its stated mission. It includes the CDFI's own evidence

and data of how its activities contribute to its mission. The financial strength and performance rating uses a CAMEL (Capital, Assets, Management, Earnings, Liquidity) analysis to assess the CDFI's overall credit-worthiness on the basis of past financial performance, current financial strength, and apparent risk factors. A site visit, including management interviews and a review of documents and files, is part of the ratings process. The final assessment includes the impact performance rating (on a scale of AAA, AA, A, B), the financial strength and performance rating (on a scale of 1 to 5), and an analysis of all areas examined, including financial statements and relevant ratios.

"CARS gathers data to evaluate a CDFI's overall creditworthiness and effectiveness in using its financial resources to achieve its development objectives. A CDFI is rated for its financial strength and performance in the areas of capital, assets, management, earnings, and liquidity, in a manner broadly analogous to the way a supervisory agency would rate a commercial bank. The financial analysis is supplemented by an evaluation of how well the CDFI is fulfilling its mission, including an assessment of its procedures for tracking the outcomes of its work. Although still in its early stages, this initiative, if successful, will have the double benefit of attracting more funds into community development and helping to ensure that those funds are effectively used."

BEN BERNANKE  
Chairman, Federal Reserve Board



## Monitoring the Portfolio

Because investments are dynamic, the Committee on Community Investment should monitor all aspects of the portfolio. The committees could instruct their advisors to monitor the portfolio, hire outside expertise, or perform the monitoring in-house, using committee expertise or college staff. Alternatively, the community investment portfolio can be monitored without such advisors, depending on the complexity of the investments and the skill set of the committee. Given that the committee will likely start out with cash and fixed income investments, monitoring should be relatively straightforward and low cost.

### Frequency of monitoring

The frequency with which the portfolio needs to be monitored depends on the nature of the investment, the target rate of return sought, how the financial markets are performing in general, and the current structure of the existing portfolio reporting process. At a minimum, the community investment portfolio should be analyzed annually, and more frequently if the committee wishes. When the concept of socially responsible investment was first introduced to the endowment world, many investor committees allocated a portion of the endowment to socially responsible investing and established a two- to five-year horizon for a review process. This was long enough to track the invest-

ments and their fluctuation against the existing portfolio returns, yet short enough to avoid being perceived as a perpetual investment.

### Monitoring criteria

Three types of performance can be monitored: financial, organizational, and community or social impact performance.

Colleges and universities can monitor the financial performance of the investment as they do all other investments. If the community investment is an insured deposit in a community development bank or credit union, the return will generally be fixed for the investment timeframe. If the investment is in public equities, calculating returns will entail tracking the initial investment over its current value, to include dividends annualized to calculate return on investment (ROI). We suggest that the community investment portfolio be tracked as a whole and compared with its specific asset classes in the non-community investment portfolio of the university. In addition, as investment values rise and fall, the committee should rebalance the asset class allocation to match the target allocations set out by the Investment Committee.

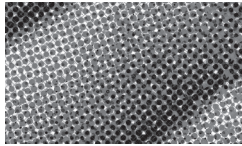
Organizational monitoring will vary depending on how the investment was placed. For instance, for any direct CDFI investment (as opposed to a bond fund or mutual fund), the committee

may require the CDFI to submit annual progress reports toward meeting the goals presented to the university.

A variety of methods are available to measure community and social impact.<sup>13</sup> Committees should be aware that the tools exist to measure some of the non-financial aspects of their investments, and they should choose a method to measure these social and community impacts.

Externalities (the impact on any party not directly involved in an economic decision) such as improvement in the quality of life, health, education and security are not factored into rates of return in assessing financial instruments. To that end, a whole field and lexicon has grown up around social rates of return. Generally, social return on investment, or SROI, may include everything that is not included in financial rates of return. For instance, if an investment in housing developments creates opportunities for low-income households to buy a home, benefits could include new taxes for the municipality and greater neighborhood stability for the community, as well as individual homeownership. The Goldman Sachs Foundation and the Rockefeller Foundation examined 16 different methods for assessing social impacts.<sup>14</sup> To learn more about these methods, please see their report *Social Impact Assessment: A Discussion among Grantmakers*. Appropriate measures will depend on the nature of a particular investment.

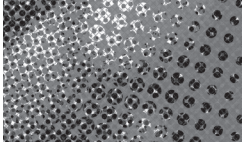




## Conclusion

Community investment offers a unique set of financial and educational opportunities to colleges and universities which can be easily incorporated into ongoing investment strategy. Community investment, although a relatively new branch of the investment paradigm, is no more than a framework from which investors can approach the decision of where to place their capital. The same sets of decisions that investors make for traditional investments apply for community investments: what are the risks and returns? How reliable are the investments? Where can we get sound advice?

Community investments run the identical spectrum as traditional investments, from federally insured deposits offering modest returns, to bond funds and public equities, to highly speculative venture capital funds. However, while community investments may be comparable to others types of opportunities in terms of financial risk and return, their social returns are remarkable. Social returns include improved community relations, educational opportunities for students, increased incentives for alumni support, and community revitalization in local neighborhoods where students faculty and staff live, work and play. Given these numerous benefits to the endowment, community and institution, it is our hope that colleges and universities will build on the concepts in this handbook, and take advantage of the tremendous opportunities to engage proactively with their communities through investment.



## Case Studies

## Case Study: Investment Opportunity in Cash

ShoreBank, Chicago, Illinois and Profile of CDARS Investments

ShoreBank is America's first and largest community development bank with assets of \$2.4 billion. It is one of the few banks in the country that offers "socially responsible" accounts in which funds are earmarked for community redevelopment. ShoreBank is a certified Community Development Financial Institution, which as of 1/1/08 had invested more than \$445 million in community development and conservation loans since 2006. ([www.sbk.com](http://www.sbk.com)).

Since its inception in 1973, ShoreBank has expanded to include locations in Chicago, Detroit, and Cleveland. ShoreBank Pacific, chartered in 1997, is headquartered in Ilwaco, Washington. ShoreBank provides individuals, nonprofits, foundations and small businesses with financing and information to develop affordable housing, community centers, and small businesses while encouraging energy-saving "green" design to protect vital natural resources, lower energy costs and add comfort and value.

To support these economic opportunities, ShoreBank relies on foundations, individuals, and other financial institutions that support its commitment to community development to deposit money for a FDIC insured, competitive rate of return. The bank then loans the funds to its customers; the funds are earmarked for community development in underserved communities.

A Certificate of Deposit Account Registry Service (CDARS) allows up to a \$50 million investment in a

FDIC insured account. CDARS, a service of Promontory Interfinancial Network, was created in 2002 to help small banks compete more effectively with large money centers institutions.<sup>15</sup> CDARS disperses these deposits among several different banks. Community development banks, like ShoreBank, join the CDARS network to "pool" their \$250,000 FDIC coverage limits to attract larger depositors.

With CDARS, an investor signs one agreement with a participating local bank or other financial institution, earns one interest rate, and receives one regular statement. CDARS has no annual fees, subscription fees, or transaction fees. Maturities range from four weeks to five years. In addition, the investor has a degree of latitude in selecting the types and locations of financial institutions where the deposits are placed.

In early 2007, TIAA-CREF, the leading provider of retirement savings products and services in the academic, medical, and cultural fields, announced the placement of a \$22 million CDARS with ShoreBank and ShoreBank Pacific, subsidiaries of ShoreBank Corporation.

"Many of our clients are looking for investments that offer competitive returns, that are also socially responsible," said Scott Budde, Managing Director and head of TIAA-CREF's Social and Community Investment Department, in a 2007 press release. "We have found an attractive investment opportunity with ShoreBank, which last year (2006) made \$400 million in community development loans

towards stimulating economic development and catalyzing positive social change.”

“TIAA-CREF’s recent deposit,” noted said Ron Grzywinski, Chairman, and co-founder of ShoreBank Corporation in the same press release, “is the largest single CD transaction we have had at ShoreBank and ShoreBank Pacific. Together, we will demonstrate what can be accomplished when the mechanisms of capital are harnessed for a social purpose while offering competitive financial returns.”

The funding source for the investment with ShoreBank is assets invested in TIAA Traditional, a guaranteed, fixed-annuity account with nearly \$160 billion and 2.3 million investors.

## Case Study: Investment Opportunities in Fixed-income

Community Reinvestment Fund (CRF), Minneapolis, Minnesota

Founded in 1988, Community Reinvestment Fund, USA (CRF) is a national nonprofit financial intermediary headquartered in Minneapolis that operates a secondary market for community development loans. The types of fixed income investments that can be purchased from CRF include notes and rated debt securities. The minimum amount that can be invested is \$100,000 and the maximum is \$20 million.

CRF plays a unique role in the multi-billion dollar community development finance industry. It channels private capital to community development lending organizations by purchasing various development loans that the lending organizations originate. It purchases existing loans, or commits to purchase loans originated exclusively for sale to CRF, from local community development lending organizations. With the funds they receive, these local lending partners finance community development activities that, without additional credit enhancements, could not be financed otherwise because of risk factors that make them unattractive to conventional lenders. To finance these loan purchases, CRF uses a variety of structured financing techniques such as the sale of asset-backed debt securities, sale of federal tax credits, and direct placement of loans with private institutional investors. CRF provides capital, and their lending partners use it to create social impact.

CRF has been financing these types of investments for 20 years, and to date has financed more

than \$1 billion in loans. These loans—2,245 in all—have been deployed across the United States, in 46 states and the District of Columbia. CRF-funded loans have been put to work in inner-city neighborhoods, remote reservations in Indian Country, rural towns, and even in a fishing village on the Aleutian Islands. The lives of more than 187,000 families have been directly improved by CRF loans—nearly 40,000 new and retained jobs, more than 16,200 low-income families have found affordable housing (and another 329 families are in market-rate units), 6,000 children are in charter and other special schools, nearly 16,000 people have been served in community hospitals and neighborhood clinics, approximately 3,000 children are in child care centers, and more than 100,000 families have been served in local, nonprofit, community facilities and centers.

# Case Study:

## Investment Opportunity in Public Equity

U.S. Community Investing Index

The Community Investing Index aims to create a market-rate, public equity strategy to spur opportunities for investors to identify and invest in companies that engage positively in economically underserved communities in the United States.

The F.B. Heron Foundation created the fund in concert with an advisory board and Innovest Strategic Value Advisors. The goal was to develop a series of transparent, measurable, and replicable criteria by which to evaluate the Standard and Poor's 900. The S&P 900 is composed of the S&P 500 and the S&P Midcap 400. The result of their work was the U.S. Community Investing Index (symbol CMTYIDX).

Company practices are evaluated in the context of their overall business strategy by different sectors:

- Strategic alignment
  - » Does the company consider emerging domestic markets when making business decisions?
  - » Are all levels of the company engaged in its community investing initiatives?
- Workforce development and wealth creation
  - » Do company policies empower all employees to achieve career and economic success?

- » Does the company invest in and provide opportunities for economically disadvantaged people where it operates?

- Community engagement and corporate philanthropy
  - » Is the company engaged in emerging domestic markets in a positive way through corporate philanthropy?
  - » Does the company provide support and opportunity for employees to be involved in their community?

### Portfolio Weighting<sup>16</sup>

Figure 4 shows sector weightings of the U.S. Community Investing Index versus the S&P 500 for the 3rd Quarter of 2008.

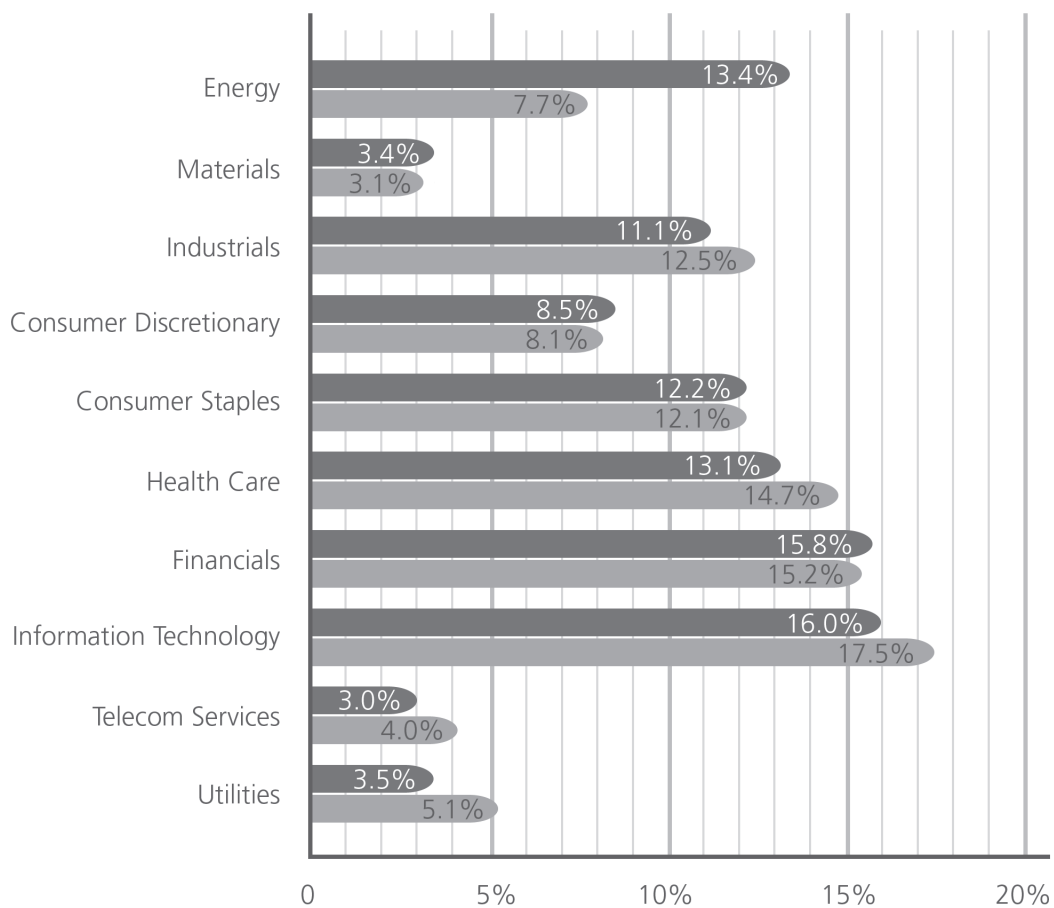
### Returns

Although the index is not yet ready for direct investment, Neuberger/Berman, an investment advisory firm has been tracking the model against other index funds and performance. Table 2 below shows results for the third quarter of 2008.<sup>17</sup> Total return includes dividends and distributions paid and accrued.

Table 2. Third Quarter 2008 Returns of Index vs. S&amp;P 500

	Q3 2008	Year to Date	Annualized since Inception (11/5–11/9/2008)
CMTYIDX total return	-6.27%	-17.99%	-0.3%
S&P 500 total return	-8.37%	-19.29%	-0.49%

Figure 4. Q3 Sector Weightings



## Case Study: Investment Opportunity in Private Equity

Pacific Community Ventures, San Francisco, California

Pacific Community Ventures (formerly Silicon Valley Community Ventures) opened its doors in 1999 in San Francisco to develop and invest in businesses providing economic gains to low- and moderate-income communities in California. A generalist fund, PCV and its affiliates manage more than \$60 million in private equity funds. PCV helps companies in traditionally overlooked areas gain access to capital, business advice, and critical business resources that will accelerate company growth. Currently, PCV targets existing businesses throughout California but has a particular focus on the Bay Area, Los Angeles, San Diego, and the Central Valley.

PCV, a 501(c)(3) nonprofit organization affiliated with three for-profit investment funds, offers entrepreneurs access to valuable business development resources through various programs and services.

PCV is affiliated with PCV Investment Partners I, II and III, which make equity investments in high-potential companies in underserved industry sectors. The purpose of these investment funds is to attract and channel institutional investment money into private companies that provide good jobs with marketable skills, benefits, wealth creation vehicles (for example, stock option and profit-sharing plans) and job skills training in low- and moderate-income communities.

In all its investments, PCV seeks double bottom-line returns, meaning both financial return, measured in terms of internal rate of return (IRR),

and nonfinancial return, measured primarily by the number and quality of jobs provided to low- and moderate-income individuals.

The company is currently investing out of PCV III, a \$40 million fund that closed in 2007.

### *Typical Investment Profile*

- \$1 to \$5 million
- California businesses with focus in the San Francisco Bay Area, Los Angeles, San Diego and/or Central Valley
- Seasoned and proven management team in place
- Strong revenue growth, near or beyond profitability
- Substantial gross margins
- Defensible competitive advantages
- Portion of workforce from low- and moderate-income communities

### *Primary Industry Focus*

- Food products and distribution
- Low capital-intensive manufacturing
- Consumer and business services

Other high-growth sectors, including sustainable and “green” businesses, alternative energy, health and wellness, trade schools, and for-profit education.



## Case Study: Macalester College, St. Paul, MN

Macalester College is a privately supported coeducational liberal arts college founded in 1874 as a Presbyterian-related but nonsectarian college. The Civic Engagement Center of Macalester provides outreach to the local community and partners with the community through civic leadership programs, student research, internships, and other activities. A primary goal of the center is to engage students in their local community.

Macalester's Social Responsibility Committee (SRC) provides advice to the administration regarding practices and policies for responsible institutional behavior. The membership on the SRC includes two representatives from the faculty, student body, college staff, and the Board of Trustees. One individual from the center serves as staff of the committee. According to Associate Dean Karin Trail-Johnson, the committee has addressed student and administration concerns over issues such as whether to accept Coca-Cola as a vendor on campus, the practices of the college's food service company, or how and where the sweatshirts sold on campus are made.

In 2007, the committee began to formulate a community investment policy. A few years prior to that, a recent alumnus has approached Trail-Johnson about the possibility of using college funds to invest in the local community. "The idea of working with local banks was really exciting to me. We figured we would get involved if we could do it in a neighborhood where we already had some

human capital deployed as a result of our student involvement," she said. This involvement included interns. "I did not want it to be a random area of activity where we did not already have this human capital commitment," said Trail-Johnson. "Our model for community investment was a combination of human capital and financial investment."

Trail-Johnson approached the president of the college to discuss this involvement in the community, who supported the idea. Trail-Johnson then assembled an ad-hoc Community Banking Committee composed of faculty, administration, students, and members of the community.

The committee developed a Request for Proposals (RFP), which it sent to five area banks. Two of these banks were national banks with an existing financial relationship with the school. The RFP asked the banks to describe their relationship to the community, and to describe how the banks might partner with the school for the betterment of the community.

All five banks responded to the RFP. The committee used eight different criteria to review the proposals and invited four banks to do a presentation. In the meantime, the committee did its own homework. Students did some online research about the banks to support or refute some of the statements made during the RFP response.

"We felt that what is often put on paper is important, but so is the relationship," said Trail-Johnson. "Is there a connection, a cultural match?

Do they get it? How will they use our assets and our intellectual capital? Who was nimble and not just a bunch of warm bodies?"

One of the larger banks appeared to have significant community investment on paper, but the committee decided that the ratio of community investment to bank size and reach was insufficient. "They had only one person working on community outreach," said Trail-Johnson.

The college ultimately chose University Bank, a certified CDFI, for its community partnership, one of the two local banks that responded to the RFP. The RFP was issued in spring 2007 and the initial deposit of \$500,000 was made in summer 2007. The initial deposit was for operating funds, money used as cash flow for the college.

## Case Study: The California Public Employees' Retirement System (CalPERS), Sacramento, CA

The California Public Employees' Retirement System (CalPERS) is the largest U.S. public pension fund.<sup>18</sup> Since the early 1930s, CalPERS has provided pension benefits to state, public school, and local public agency employees, retirees, and their families. The population of workers and retirees served by CalPERS since the 1930s has grown by more than a hundred times, from 14,000 state employees in 1933 to 1.5 million active workers and retirees in 2008. Assets under management have expanded from \$2.6 million in 1933 to approximately \$250 billion today. Most of the income—and the source of funds for benefits—comes from investment rather than member and employer contributions.

### CalPERS Investment Policy

Given the importance of investment earnings, CalPERS must pay close attention to its returns. CalPERS is led by a 13-member Board of Administration, which, as its investment committee, also oversees the management of CalPERS assets. CalPERS employs an 180-member internal investment organization plus thousands of outside managers and advisors.<sup>19</sup> The starting point for successful returns on investment is asset allocation—strategically diversifying among stocks, bonds, cash and other categories of assets. This captures the greatest return at the least overall risk to market volatility. Many factors, including liabilities, benefit

payments, operating expenses, and employer and member contributions, are considered when determining the appropriate asset allocation mix.

### Alternative Investments and the California Initiative

Unlike a university or a private foundation, a public pension fund may not make below-market investments. Fiduciary duty requires public-sector pension funds to put financial obligations at the forefront of their decision-making. However, these funds also have a vested interest in ensuring economically healthy communities that in turn support employer contributions to the fund.<sup>20</sup> While abiding by the principles of sound financial management, a public pension fund such as CalPERS may target a portion of its investments within certain geographies and underserved markets. The California Initiative is one of CalPERS' innovative programs within the alternative investments asset class. It seeks investment opportunities in California that offer attractive, risk-adjusted returns, commensurate with their asset class (Impacting, 2007).<sup>21</sup>

The CalPERS Alternative Investment Management (AIM) team, directed by the investment committee, launched the CalPERS California Initiative in 2001. The California Initiative aims to invest private equity in "traditionally underserved markets primarily, but not exclusively, located in California,"

by finding and investing in opportunities that other sources of investment capital may have bypassed.

The primary objective of the California Initiative is to generate attractive financial returns, meeting or exceeding private equity benchmarks.<sup>22</sup> Early results are positive. As of September 30, 2007, the initiative reported a net 18.2 percent internal rate of return since its inception.<sup>23</sup> As an ancillary benefit, the California Initiative seeks to have a meaningful impact on the economic landscape of California's underserved markets.

The California Initiative has been implemented in two phases. Phase I was approved in May 2001 and consists of a capital commitment of \$475 million to nine private equity funds and one fund-of-funds (see diagram). The fund-of-funds, the Banc of America California Community Venture Fund (BACCVF), is managed by Banc of America Capital Access Funds (BACAF), and its investment objectives parallel those of the California Initiative. In October 2006, CalPERS announced a second allocation, a \$500 million capital commitment to be managed by Hamilton Lane, a leading private equity investment manager. CalPERS and Hamilton Lane established an investment vehicle known as the Golden State Investment Fund (GSIF), which seeks to invest in both partnerships and direct co-investments primarily located in California. (The second phase allocation was later increased to \$550 million.) The Golden State Investment Fund managed by Hamilton Lane includes as partners DFJ Frontier, Levine Leichtman Capital, Pacific Community Ventures, and RLH Investors.

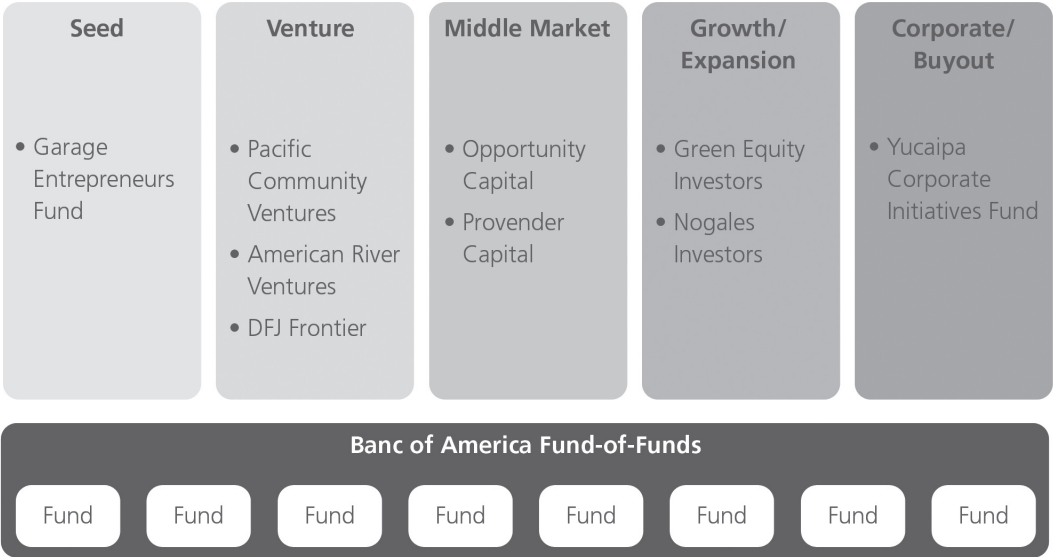
By September 30, 2007, the California Initiative had invested in 217 companies, and GSIF had invested in nine companies.<sup>24</sup> This portfolio is expected to grow significantly. Among the 197 Phase I company investments, 115 were made through the nine private equity funds while the remaining 82 were made through 13 funds in the BACCVF. Banc of America expects its funds to ultimately invest in 150 to 175 companies.

## Getting Started

As is the case in foundations, engaging in targeted investment at a public pension fund usually requires a board-level champion to build support among board members and board consultants.<sup>25</sup> Once the board agrees to consider a targeted investment, pension fund internal staff typically commission an expert study of these investment opportunities. Generally, staff choose an outside expert with whom they are comfortable. The study can take as long as one year to complete. During this time, both staff and board increase their comfort levels with targeted investing. CalPERS hired McKinsey and Co. to analyze targeted investment programs with staff. "They scoured ETI [economically targeted investment] programs to see what worked and what didn't work," reports Joncarlo Mark, Senior Portfolio Manager of the CalPERS Alternative Investment Management Program, in a personal interview in June 2008.

The report guides the board in choosing the asset class and level of investment most appropriate for targeted investment given their current asset allocation. Often staff are asked to issue a Request for Proposal (RFP) or Request for Information (RFI) from external money managers in the chosen asset class. Board and staff will look for proposals from top quartile performers with a track record of successful targeted investments. CalPERS spent significant time marketing the program, and generated much interest from external money managers, receiving 67 proposals.

Figure 5. California Initiative Partners (Phase I)



## Case Study: Southern New Hampshire University, School of Community Economic Development, Manchester, NH

The School of Community Economic Development (SCED) is part of Southern New Hampshire University in Manchester. For more than 25 years, the school has been a leader in educating community leaders in the field of community economic development.

In 2006, the school raised a small endowment of about \$1 million. According to the school's former dean, Dr. Michael Swack, "it seemed appropriate for a School of Community Economic Development to invest in communities, including the communities where we had alumni." Dr. Swack raised the issue with the school's Board of Overseers, who agreed that it would be unseemly not to invest this money in what the school teaches.

The overseers formed an Investment Committee and charged them with designing community investment guidelines. The committee had considerable investment expertise, and its chairman was an investment advisor and very knowledgeable about the field. The first set of guidelines was to invest in fixed-income instruments with a market rate of return and that were consistent with the mission of the school. When the overseers approached the university trustees about community investment, they required the community investment to be segregated from the rest of the university's endowment and that any management fees be paid from the SCED fund, and not the university endowment.

The Overseers asked the university's endowment investment manager, the Citizens Bank, to invest

in a range of community investments. Citizens Bank did not charge any extra for placing community investments in credit union and community development bank certificates of deposit, with staggered maturities, as well as placing longer-term money in a local community loan fund. The memo in Appendix 3 documents the initial investments, totaling \$560,000, made in 2007.

## Case Study:

# The F. B. Heron Foundation, New York, NY

Founded in 1992 with the mission of helping people and communities to help themselves, the F.B. Heron Foundation came into being during one of the greatest economic booms in U.S. history. Not only did the strong financial markets of the 1990s result in the rapid growth of Heron's asset base, but they also served to reinforce the foundation's focus on asset building and community economic development.

Heron has been a pioneer in the field of mission-related and community investing. Contrary to the assumed trade-off between financial return and social impact, Heron's experience during the last 10 years demonstrates that competitive investment returns are possible, even when incorporating mission-related investments into an overall portfolio and asset allocation.

Heron's market rate portfolio consists of the following types of investments:

**Cash.** The Certificate of Deposit Account Registry Service (CDARS) allows investors to make deposits in certain institutions, including more than a dozen community development banks, of up to \$30 million with full FDIC insurance coverage. CDARS is a service of Promontory Interfinancial Network that allows community banks to "pool" their \$250,000 FDIC coverage limits to attract larger deposits. Heron places \$5.8 million in deposits in several of the nation's 60 community development banks and more than 1,000 "low-income designated" credit unions, selecting those

institutions that have a significant portion of their lending activity in asset-building in low-income communities.

**Fixed Income (Bonds).** With input from Heron, the foundation's fixed-income manager, Community Capital Management, identifies investment-grade, fixed-income securities issued by both public and private entities. Mission-related bonds range from down-payment assistance for low-income, first-time homebuyers in Texas to "blight bonds" issued by the city of Philadelphia as part of its Neighborhood Transformation Initiative. Some of the securities in Heron's fixed-income portfolio are backed by pools of loans originated by community-based nonprofit organizations and aggregated by the Community Reinvestment Fund. Community Capital Management has also worked with the Small Business Administration to add information to loan descriptions about borrowers' location in low- and moderate-income census tracts and number of employees. This information helps to develop pools that more closely fit Heron's mission. Heron's mission-related, fixed-income portfolio stands at \$21 million and has outperformed its benchmark, the Lehman Brothers Aggregate, since inception.

**Public Equity.** In 2005, with assistance from Innovest Strategic Value Advisors, Heron created a method for selecting companies in each industry in the Standard and Poor's 900 on the basis of the quality of their engagement with low- and moderate income communities in the United States. The

resulting Community Investment Index takes into account corporate strategy, workforce development, wealth creation, and corporate philanthropy.

Past performance of the selected equities looked promising, so Heron committed a portion of its capital to test the index's approach. Managed by State Street Global Advisors, the index returned 15.0 percent in 2006, versus 15.3 percent for the Standard and Poor's 900 and 13.2 percent for the Domini 400, the most widely used benchmark for large-capitalization, socially responsible, equity investing. Heron is creating a commingled investment product that the foundation hopes will be attractive to other institutions committed to investing in low-income communities. The performance of the index continues to perform well amid the current market turmoil. In 2008, the index fell 17.99 percent in the first three quarters of the year, bringing the performance since inception (from November 2005 to September 2008) to -0.30 percent. In comparison, the Standard and Poor's 900 total return fell 18.89 percent in the first three quarters of 2008, and the Domini 400 fell 17.20 percent. Both benchmarks are at approximately the same level they were three years ago.

**Private Equity.** Heron's private equity is focused on real estate, such as commercial properties in inner-city communities, and later-stage venture financing. It currently has \$16 million in outstanding, market-rate, private equity commitments, and measures their performance against a benchmark of the Russell 3000 plus 3 percent. The real estate portfolio is generating net returns ranging from the low to the upper teens, and venture funds are producing net returns on realized investments of more than 20 percent.

## Managing the Portfolio

Heron pays close attention to several factors to fulfill its fiduciary duty.

**Asset Allocation.** Heron's current asset allocation, established by the board, is approximately 65 percent in equities, 25 percent in fixed-income securities, and 10 percent in alternative investments,

such as private equity. This allocation governs all investing, both traditional and mission-related.

**Investment Fees.** With nearly one-half of its investment portfolio in index and enhanced index investments, Heron's investment management fees were 34 basis points in 2006. This is below the mean of other private foundations in widely known investment surveys.

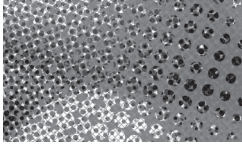
**Underwriting and Due Diligence.** Outside, third-party consultants assist both program officers reviewing below-market, mission-related transactions and investment staff underwriting market-rate, mission-related investments. This "second pair of eyes" provides Heron with an independent, arm's-length review that supplements, but does not supplant, staff's judgment.

**Monitoring.** Heron monitors all aspects of its portfolio, with staff meeting quarterly and third-party monitoring reports by experts in each asset class. Monitoring efforts have revealed a number of issues that investees face, such as leadership transitions, fundraising disappointments, and market changes that sometimes lead to deteriorating financial health. In most cases, Heron has taken steps to stay with its investees through tough times.

## The Results: Better-than-Average Portfolio Performance

Contrary to the perception that financial return and social impact cannot go hand in hand, Heron's experience during the last 10 years demonstrates that competitive investment returns are possible, even when incorporating mission-related investments into an overall portfolio and asset allocation. As of December 31, 2007, Heron's total fund performance was in the second quartile of the Russell/Mellon All-Foundation Universe, a benchmark for measuring foundation and endowment returns, on both a trailing one-year and three-year basis, with 18 percent of assets in market-rate, mission-related investments, 6 percent in below-market, program-related investments, and 3 percent in grants.





# Appendices



## Appendix 1

### Description of Asset Classes

Below are descriptions of the typical asset classes that would be used in a college endowment portfolio. Note that these match those used by the National Association of College and University Business Officers (NACUBO.)

- Public equity is an asset class in which individuals or organizations buy ownership in shares or stock of a company through a public market such as the New York Stock Exchange
- Private equity is an asset class that includes securities that are not listed on a public market or exchange and are not readily accessible to most investors. These investments range from initial capital investment in start-up enterprises to leveraged buyouts of mature corporations. Private equity investments are typically long-term commitments that may last 12 years or more
- Fixed-income securities represent debt obligations and usually have fixed payments and maturities. Different types of fixed-income securities include government and corporate bonds, mortgage-backed securities, asset-backed securities, convertible issues, and may also include money-market instruments
- Real estate includes typically direct or limited ownership of land, buildings, and land improvements
- Cash, which can include cash-like securities, such as short-term money market instruments, commercial paper, and short-term obligations of U.S. Treasury and agencies
- Hedge funds are exempt from many of the rules and regulations governing publicly traded mutual funds, which allows them to accomplish aggressive investing goals. Limited to wealthy individuals and institutions, hedge funds use strategies unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage, and derivatives. They are restricted by law to a limited number of investors per fund, and, as a result, most hedge funds set extremely high minimum investment amounts, ranging from \$250,000 to more than \$1 million. As with traditional mutual funds, investors in hedge funds pay a management fee. However, hedge funds also collect a percentage of the profits (usually 20 percent)
- Venture capital is the private equity financing of early, expansion, and later-stage, emerging small businesses. Companies grow from start-up to medium-size businesses and are then either sold to the public through an initial public offering or are sold to a strategic or financial buyer

- Natural resources become investments either through natural-resources mutual funds or financial instruments such as commodity futures (including precious metals, agriculture products, or energy resources) or direct investment in natural resources, such as timberland, coal, or oil

## Appendix 2

# Macalester University RFP in Community Banking and Response from Sunrise Bank

MACALESTER COLLEGE  
Community Banking Proposal 10/26/2006

**Submitted By:**

University Bank  
(of Sunrise Community Banks)  
200 University Ave W  
St Paul MN 55103

**David C. Reiling**

CEO Sunrise Community Banks

**John P. Bennett**

President

**James A. Conrad**

SR VP Commercial Lending

**Mary S. Fitzenberger**

AVP Institutional Sales

Thank you for extending the opportunity for University Bank to submit a proposal for Macalester's banking services. Your mission to be a *preeminent liberal arts college with an educational program known for its high standards for scholarship and its special emphasis on internationalism, multiculturalism, and service to society* is admirable. We commend you for your commitment to transforming learners into socially responsible citizens.

We share your values and believe that it is our responsibility to recognize and support the cultures

that surround us and reach out to others in improving their lives in some way everyday. At University Bank, our mission is to be *The Leader in Improving Our Urban Community*.

### Background

University National Bank is the first CDFI Bank (Community Development Financial Institution) in Minnesota. We focus on a triple bottom line to make a difference in the communities that we serve. We are committed to engaging in projects that support affordable housing, loans to small businesses, aid for non-profits and community services within low to moderate-income areas in the Twin Cities Metropolitan area. We are environmentally aware and supportive of the need for sustainable efforts for our environment.

CDFI's are specialized financial institutions that provide a wide range of financial products and services, including mortgage financing for first-time home-buyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low income households and local businesses. In addition, these institutions provide services to help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers. CDFI's include communi-

ty development banks (like the Sunrise Community Banks), credit unions, loan funds, venture capital funds and microenterprise [sic] loan funds.

The United States Treasury recently recognized the three locally owned Sunrise family of banks. University Bank, Park Midway Bank, and Franklin Bank are the first group of affiliated banks in the country to be designated as Community Development Financial Institutions. The three Sunrise Banks – Franklin Bank in Minneapolis, Park Midway and University Banks in Saint Paul – achieved this distinction for their commitment to strengthening their local communities by financing local housing and small-business projects, offering socially responsible banking products, and volunteering for area non-profits and boards.

Listed below are responses to your questions as outlined in your proposal request. Some questions have been combined as they interrelate.

## **1–2. Description of how University Bank has had an impact on local low to moderate-income communities in the past five years and how these low to moderate communities have changed.**

University Bank's "Houses to Homes" program was launched in 2000 to rehabilitate 1,000 distressed homes in the Twin Cities in five years. The bank provides up to 100 percent of the financing to rehabilitate these houses, turning them into homes. When the bank met our goal in 2004, more than a year ahead of schedule, we decided to renew our commitment to this issue. To date, we have rehabbed more than 1,200 houses in the Twin Cities. Along the way, we have cleaned up neighborhoods and created shelter for deserving families.

In order to help safeguard and support the balance of current residents, business owners and new entrants to the community, we have partnered with non profits (Neighborhood CDC's, municipal loan programs, etc.) to provide targeted project oppor-

tunities. For example, we helped finance a 15 unit new condominium project of which 5 units were required to be sold to low income families utilizing land trust grants. Land trust grants provide community subsidies to reduce the cost of new housing for low income families. These subsidies remain in place for the long term so that a subsequent low income family can purchase the property.

One of our clients, Stacy Roxberg had a problem. Her company, SMR Enterprises, specializes in buying dilapidated houses out of foreclosure, fixing them up, and then selling them to first time home buyers. The houses are in such rough shape that getting a loan to rehabilitate the house is difficult. Through our Socially Responsible Deposit Fund, we were able to lend the money to her to develop properties in low to moderate income neighborhoods. In six months, University Bank has agreed to lend her \$1 million to rehabilitate these homes.

Recently, we have worked with a local physician to renovate a large vacant building on University Avenue. We worked with several entities and are a partner of the large financing package which will bring life to this abandoned corner. This location will provide a bright future for our local immigrants.

This is just a sampling of the many people and lives which we have touched through our creative CDFI financing efforts.

The Sunrise Community Banks are among 700 CDFI's throughout the country, 31 of which are in Minnesota, and stand out as the *only CDFI-certified banks* in the Twin Cities, according to the Coalition of Community Development Financial Institutions. With this designation, the U.S. Treasury Department acknowledges Sunrise Community Banks' expertise and dedication to invest money in low to moderate income communities. This status allows the banks to apply for federal grants through the U.S. Treasury Department's CDFI Fund, giving the banks more resources to invest in local low income communities and provide financial products and services to people who are underserved by traditional banking institutions.

"Garnering CDFI Certification for all three Sunrise Community Banks has been a top priority

for the banks' leadership for the past several years, and we are honored to be the first family of banks to earn this important designation," said David Reiling, the CEO of Sunrise Community Banks. "The great work we're doing at Franklin, Park Midway and University Banks will only expand with the funds we're now eligible to receive through the federal CDFI program."

Enclosed you will find a color map of University Bank's CDFI Investment Area. The CDFI area has 188 census tracts. Over 85 percent of the target market is in low and moderate-income census tracts. This is the geographic area we use for the Socially Responsible Deposit Fund (SRDF). Currently, our customers have designated 74 percent of all bank deposits to the SRDF Fund to support our mission to be *The Leader in Improving Our Urban Community*.

### **3. Bank efforts to support the Twin Cities' immigrant communities.**

Our commitment starts at home. Over 55 percent of our client base is of diverse ethnic cultures. To facilitate education regarding banking services, we have recently translated new account and educational information into Hmong. Banking tours have been given to acquaint immigrants with the features and benefits of a banking relationship.

University Bank also has a diverse ethnic staff of 37. Over 33 percent of our staff is comprised of ethnic cultures. Of our 37 employees, 4 speak Hmong dialects, 2 Hispanic and we have an intern that is of Hmong descent and speaks 5 languages. In addition, one current board member is of Hmong descent.

Being active in the immigrant communities is a top priority of our staff. Khue Yang, AVP/Commercial Lending is currently serving as the President of the Hmong Chamber of Commerce. He is extremely well known throughout the community and has aided in fostering many immigrants to be successful in small business. Many are along the University Avenue corridor. We have participated in financial literacy programs with immigrants from the Neigh-

borhood House on the West Side of St Paul. In addition, Mary Fitzenberger, AVP/Institutional Sales currently serves on the board for (Seam) Southeast Asian Ministry. Seam has been in existence for 25 years providing services to thousands of immigrants from Cambodia, Vietnam and Laos. They provide ESL classes, Hmong Elder Education programs, operate the Capitol Hill English School and have a nurse on staff.

Other organizations which we have supported that aid immigrant communities include the following: YWCA, Children's Defense Fund, Dave Winfield Foundation, Amherst H Wilder Foundation, Meals on Wheels, St. Paul Jaycees, St Paul Chamber of Commerce, Midway Chamber of Commerce, Adopt a Park (Western Sculpture Garden), Emergency Food Shelf, Greater Frogtown CDC, Eastside Neighborhood Development, Josephs Coat, Guardian Ad Litem, Living Green, New Spirit School, North End Family Center, Responsible Business Minnesota, Rice Street Festival, Serra Club, St Bernard's School, Equity Services, Hmong American Partnership, Lauj Youth Society, Hmong New Year, Junior Achievement, North End Family Center and Pan African Business Society.

### **4. Loan concentrations in low income areas of the Twin Cities.**

Sixty-five percent of University Bank loans are in the CDFI Target Market along with 65 percent of University Bank loan dollars. In aggregate, our CDFI Target Market is referenced in "Attachment A".

The target market has a 19 percent Poverty Rate, with household incomes that are 65 percent of the median family income for the area (Median Income for the MSA is \$74,700). It has an unemployment rate of 7 percent.

### **5. Linking Macalester College deposits to targeted areas.**

By making a deposit into our Socially Responsible Deposit Fund (SRDF), you can be assured that your

dollars are supporting low to moderate income areas. In order to impact as many low income areas as possible University Bank encourages its deposit customers to support the general community fund. Our history has proven a wide range commitment to several geographic areas which best support more low income projects. University Avenue is a strong example of our presence through loans to businesses and individuals in that area. Upon opening a depository account with us you can designate your account balances in support of affordable housing, small business development, and support for non-profits and community services.

## **6. Engaging the Macalester community is essential to a strong relationship.**

University bank would be open and willing to engage the students, faculty and staff in community outreach activities. For example, several of our customers and partners have projects that benefit from volunteer labor (i.e. low income revitalization projects). We would be happy to provide the connection to the appropriate organization. In addition, our bank staff would be very willing to visit classes upon request and provide informational materials to the campus. We could have a presence during Minnesota Private College Week and student orientation. We will share annual updates of progress on our community involvement. Potential advertising outlets include the bank's website, quarterly newsletters and potential joint partnerships.

## **7. Macalester community member accounts**

We would be delighted to offer our full menu of services to the Macalester community. We have provided a simple method for all depositors to designate their funds as SRDF. All Macalester depositors are welcome to deposit with that designation. We are currently exploring several avenues to assist in placement of an ATM on your campus.

For institutional deposits, we are members of CDARS, offering clients full FDIC insurance up to \$30 million dollars. Through CDARS, funds can be channeled to community banks that lend and provide services to local areas. With CDARS, you get CD-level rates, safety in having your deposit insured up to \$30 million, convenience of one bank and full support of helping those in the most need.

Listed below is a menu of products and services available.

- Premier Treasury Checking Account-Available to Non-profits
  - » Current Yield 5.09 percent
- Minimum Balance \$5,000.00
- Variable Rate based on 3-month t-bill weekly average
- Interest credited Monthly
- Online access
- ATM Debit Card- No charge at Wells Fargo on-bank sites
- Free personal size checks
- Application available for Line of Credit attached to checking account.
- Full Cash Management Services to meet your Internet Banking Needs.
- Laddering of Various Certificate/Savings products to meet your cash flow needs.
- Member of CDARS offering clients full FDIC insurance up to \$30 million.
- Payment processing Services available through Transcom.
  - » Will arrange for Contact  
Mike Farkas (952) 933-5866 ext 22.

- Visa Travel Cards available through Élan Services.
- Loadable Stored Value Card –Pin based and can be used for petty cash.
- Safe Deposit Boxes- Various sizes available upon request.
- Free checking for Staff members, faculty, administrators and other employees.

## 8. Partnerships of interest

Through your Civic Engagement Center and Institute for Global Citizenship, we would welcome the opportunity to coordinate specific projects and research. Since the beginning of 2006, our staff of 37 volunteered for 45 different non-profits providing over 1250 hours of community service. We would hope that the Macalester partnership would greatly increase our commitment to these most deserving community members. Partnership opportunities could include internships, social research, and financial literacy. We welcome any additional ideas for opportunities.

## 9. Data and research

A senior staff member of University Bank would be most pleased to address Macalester with progress reports and speak to the community if desired. Due to the Right to Financial Privacy Act, we are limited to the details that we may provide, however, representative examples can be provided for educational purposes.

## 10. Management of partnership

We would be happy to assign a Macalester relationship team consisting of the appropriate mix of staff. We are also looking into having a source code added to segregate deposits related to your institution.

## 11. Benefit of Macalester relationship

We view a potential Macalester College and University Bank partnership as a “Win-Win” situation. Additional volunteers would greatly impact our community efforts and the dollars that would be generated to benefit the community.

Through this collaborative endeavor, we would be able to increase support and respect for the various diverse cultures of which we serve. Students would receive a broader understanding of social responsibility and they would make better informed decisions and interpretations on the broader world around them. We would hope that through the partnership civic engagement would become a way of life for the students.

We welcome the opportunity to share our vision for positive social impact in our shared community.

Thank you for providing us with this wonderful opportunity!



# Appendix 3

## School of Community Economic Development (SCED) Investment Memo, Southern New Hampshire University

### MEMO

To: Maureen Kelliher, Citizens Bank  
 From: Michael Swack, Dean, School of CED  
 Date: February 20, 2007  
 Subject: School of Community Economic Development's (SCED investment deposits

The School of CED investment policy was recently amended by the board to allow the School to direct funds into community investments. The initial strategy involves investments in federally insured CDFIs (banks and credit unions) as well as uninsured CDFIs. We are currently looking into a new equity product that is being tested, but is not yet ready to accept funds. We have researched the following organizations and request that we *invest in a ladder of CDs* in the insured institutions and make one investment in an uninsured institution, the New Hampshire Community Loan Fund. Our recommendations follow; the recommendations below would account for \$560,000 of our current amount at Citizens.

**Invest \$60,000 in a three-year loan to the NHCLF at their current going rate.**

Contact Al Cantor at (603) 224-6669

**Invest \$50,000 each in certificates of deposit at the following four insured banks.**

1. *Carver Federal Savings Bank* (located in Harlem, African-American managed [it's publicly traded, so not AA-owned], good individual and community programs, reaching into the Caribbean areas of the outer boroughs, Debbie Wright, the president, is one of the most dynamic young minority bankers around)

Carver Federal Savings Bank  
 Sandra E. Paris  
 Director of Treasury and Budgeting  
 Carver Federal Saving Bank  
 Tel: (212) 360-8865  
 Fax: (212) 426-6159  
[sandra.paris@carverbank.com](mailto:sandra.paris@carverbank.com)

2. *Harbor Bank of Maryland* (Baltimore, a high-performing African-American owned and managed bank)

Harbor Bank of Maryland  
25 West Fayette St.  
Baltimore, Maryland 21201  
410-342-4563 or 1-888-833-7114

3. *City National Bank* (Newark, aggressive multi-family and commercial lender, African-American owned and managed)

City National Bank  
900 Broad St  
Newark, 07102  
Phone: (973) 624-0865  
Fax: (973) 624-5754

4. *ShoreBank* (Chicago, largest and oldest of the CDFIs, deal flow is heavy, but needs deposits)

Lyndee Lloyd  
Business Development Associate  
ShoreBank Nonprofit Service Area  
333 S. State Street, Ground Floor  
Chicago, IL 60604  
Tel: (773) 420-5136  
Fax: (312) 341-9043  
[Lyndee.Lloyd@sbk.com](mailto:Lyndee.Lloyd@sbk.com)

**Invest \$50,000 each in each of the following six credit unions. (We will send contact information in a separate document.)**

1. *Latino Community Credit Union*

Founded in 2000 as a grassroots response to a wave of robberies and muggings of Latino immigrants, Latino Community Credit Union has become a national model for credit unions and CDFIs serving unbanked and low-income immigrants. Functioning with the back-office support of State Employees Credit Union (SECU) since inception, today the credit union boasts over 38,000 members, five branches, and \$22M in assets, making it one of the fastest-growing credit unions in the US. Latino Community CU offers its members the full

range of products and services supported by SECU, and some others – such as international remittance transfers and special accounts for people without social security numbers – that are not part of SECU's core operations. Latino Community CU currently pays 15 percent of gross revenues to SECU for their comprehensive and specialized back-office services. The credit union has members from all 18 Spanish-speaking nations in Latin America, most notably Mexico, Guatemala, El Salvador, Honduras, and Columbia.

2. *Community Trust Credit Union* (formerly Food Processors Credit Union) is a full-service, not-for-profit, Community Development Credit Union established in California's Central Valley since 1961. Since the year 2000, CTCU's mission "to provide excellent personal service" has evolved past the traditional credit union programs, products, and services into those that feature access to education, information, and end-use products that support financial stability for Hispanic and other underserved, low-income families preparing them for the ultimate goal of homeownership. The credit union has three branches, \$50,000,000 in Total Assets, and 12,000 members. They changed their name as the Food Processors designation no longer reflected the focus of its membership and its open charter, which allows anyone who works, lives, or worships in our four-county operating area to become members. Seventy percent of the members are Hispanic with at least 50 percent of that number from the Target Market, i.e., very-low and low-income, unbanked Hispanics with limited English skills, including those without documents to be in this country.

3. *West Texas Credit Union* is a \$60 million dollar credit union that serves more than 16,775 members, with more than 70 percent of the membership residing in designated low-income areas of El Paso. The El Paso County has one of the lowest per household income in the country, yet it has one of the highest activities in subprime lending in the country. The median annual household income is \$29,988, which ranks the area as the fifth lowest in the U.S. There are approximately 80,000 people living in colonias outlying the City of El Paso, with

most not having access to capital or traditional financial services, or access to low cost capital for home loans or consumer loans.

Traditional financial institutions are outnumbered 7 to 1 by high-cost lenders in El Paso County. These easily accessed, high-cost fringe lenders greatly increase the high cost of being poor, erode families' low income, and prevent families from entering the mainstream credit system to create wealth or purchase a home. The predatory lenders offer payday loans, finance company loans, high-cost money orders, high-cost remittances, predatory subprime home loans, and contracts of sale for real estate property, as well as unscrupulous insurance practices. The credit union believes that the underlying cause of most of this inequity is lack of information about family financial planning, credit management, asset development, and about how our credit union implements its Financial Literacy, Credit Management, Asset Development, and Homeownership programs in an attempt to correct this deficiency.

#### 4. Santa Cruz Community Credit Union

In June, 1977, the Santa Cruz Community Credit Union opened its first savings accounts and embarked on what is now nearly three decades of community service. In those early days, the founders of the SCCCUC crafted the guiding principle on their conviction that working for social and economic justice and empowering those who had been marginalized by the status quo would improve the quality of life of everyone in our community. Thirty years later, the Community Credit Union has attained remarkable achievements by maintaining a steadfast commitment to its mission to promote positive social and economic change.

In 1996 the SCCCUC received the federal designation as a community development financial institution, thereby recognizing its accomplishments in meeting the needs of its low-income members. In 1997, they received a \$1 million grant to open its Watsonville office, which has since experienced impressive growth. In 2000/2001, it received more than \$1 million to support its Individual Development Account (IDA) Program serving very low-income people. In 2001, the SCCCUC won the

National Louise Herring Award for Philosophy in Action for our "Asset Development for Low-Income Members" program, a tribute to the effectiveness of our service. The Community Credit Union moved to a larger building at 324 Front Street (the former Movies I and II building) in 2003 to accommodate its expanding staff needs and to serve our 8,200 members better.

5. *Saguache County*, chartered by the State of Colorado in 1996, was designated "Low-Income" by the NCUA on February 7, 1996. The credit union was organized to serve the rural/agricultural area of south central Colorado, for which access to basic financial services entailed a drive of up to 50 miles. The credit union's field of membership has become the entire county of Saguache County, whose population is 5,917 (2000 Census). The census revealed that 18.7 percent of families and 22.6 percent of the individuals in the county were living below the poverty line. In 2000, Saguache County had the lowest per capita income of \$15,239 for all the counties, but has increased to \$17,467 in 2002. In January of 2001, Saguache merged with 60-year old Co-operators Credit Union, and its membership is now 2,847. The office of Co-operators in Center, Colorado became Saguache's second branch.

The credit union offers a full array of services to its members. Saguache reports that 64 percent of its loans are housing related, i.e. mortgages, improvement, and rehabilitation. Management estimates that 85 percent of its members have annual household incomes of less than \$30,000 and that 45 percent are Hispanic.

6. *The nonprofit Center for Community Self-Help* and its financing affiliates, *Self-Help Credit Union* and *Self-Help Ventures Fund*, compose one of the nation's leading community development financial institutions (CDFIs). Its mission is to create ownership and economic opportunities for minorities, women, rural residents, and low-wealth families.

Since 1980, Self-Help has provided \$4.5 billion in financing to more than 50,000 small businesses, nonprofits, and homebuyers. In many cases, its lending and advocacy efforts have benefited people and communities both in North Carolina and nationwide.

Self-Help operates from regional offices in Asheville, Charlotte, Durham, Fayetteville, Greensboro, Greenville, and Wilmington, as well as in Washington, D.C.

In 2002, Self-Help created the Center for Responsible Lending (CRL), a national nonprofit, nonpartisan research and policy affiliate. CRL is dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices.

With the addition of three full-service credit unions in eastern North Carolina, Self-Help Credit Union continues to grow the Self-Help mission of creating ownership and economic opportunity. The merged credit unions are Firestone Credit Union, Scotland Community Credit Union, and Cape Fear Credit Union. Together with Self-Help Credit Union, these three full service credit unions serve minorities, women, rural residents, and low-wealth families across eastern North Carolina. As local full-service financial institutions, these merged credit unions provide an array of consumer products and services not available through Self-Help's traditional branches.

# Appendix 4

## Resources for Colleges and Universities

### Exploring Community Investment

#### Advisors

##### • Calvert Foundation's Advisory Services

Calvert Foundation's Advisory Services program, Community Investment Partners (CIP), makes information and services available to support, or initiate, community investment programs.<sup>26</sup> With more than 10 years of experience, they act as a facility for individuals and institutions seeking to channel capital to community projects in an efficient, disciplined, and recoverable manner, helping finance affordable homes, fund small and micro businesses, and make essential community services available. Some of their services include due diligence reporting, program design, portfolio management, loan administration, and community investment pools.

##### • Community Capital Management

Founded in 1998, Community Capital Management is a privately held investment advisor dedicated to the active management of portfolios within its "Community Investment" fixed-income strategy.<sup>27</sup> This approach uses a screening process to identify high-quality bond issues (average credit quality is AAA) that respond to community and economic development needs. Client portfolios typically have at least 90 percent of total net assets invested in bonds that meet these criteria.

##### • FSG Social Impact Advisors

FSG Social Impact Advisors is a nonprofit organization dedicated to accelerating social progress by advancing the practice of philanthropy and corporate social responsibility.<sup>28</sup> Originally founded in 1999 by Mark R. Kramer and Professor Michael E. Porter as Foundation Strategy Group, LLC, the company converted to nonprofit status in April 2006 to pursue a broader mission. They offer three strategies: consulting services (on strategy and implementation, evaluation, organizational alignment, and corporate social responsibility), ideas, and action.

#### Intermediaries

##### • Opportunity Finance Network

Opportunity Finance Network (OFN) is the leading network of private financial intermediaries identifying and investing in opportunities to benefit low-income and low-wealth people in the United States.<sup>29</sup> OFN members originated more than \$12.5 billion in financing in nonconforming urban, rural, and native communities through 2006. This has generated or maintained 175,710 jobs, 39,583 businesses, 533,394 housing units, and, 5,858 community facility projects. OFN members are located throughout the United States and offer investment opportunities for both institutional and individual investors.

### • **Community Reinvestment Fund**

The Community Reinvestment Fund (CRF) is a national nonprofit organization based in Minneapolis, Minnesota.<sup>30</sup> CRF is not affiliated with any government agency. CRF supplies capital to local community development lenders so they can meet their goals. It operates the leading national secondary market for community and economic development loans, and purchases economic development and affordable housing loans from community development lenders. It pools them into asset-backed debt securities and New Markets Tax Credit investment funds, which are privately placed with institutional investors. CRF accepts investments from institutional investors including universities.

### • **Access Capital Strategies**

Access Capital Strategies, a division of Voyager Asset Management is a firm that creates secondary markets for community development investments.<sup>31</sup> Founded in 1997, Access Capital Access creates specialized mortgaged and asset-backed securities that support low- and moderate-income home buyers, affordable housing, education, health care, and job creation in underserved communities. Their clients include banks, foundations, health care institutions, pension funds, and universities.

## **Brokers**

### • **AltruShare Securities and AltruShare Opportunity Funds**

In the brokerage field, AltruShare Securities is the first non-profit owned Community Investment Enterprise (CIE) in the industry and the first institutional brokerage firm to specialize in community investment. AltruShare is managed/directed by individuals with many years of experience with traditional brokerage firms and who can place the same traditional investments as any other brokerage firm at competitive prices. Instead of distributing the profits of the firm to for-profit shareholders, AltruShare is unique because the profits from the firm are re-invested into community activities and investments. AltruShare publishes research on

community investment and is majority owned by two foundations with decades of experience in community based philanthropy and investment. Through this unique ownership structure, AltruShare's profits fund the AltruShare Opportunity Funds which support education and economic opportunity programs in economically disadvantaged communities in the states where AltruShare operates.

## **Non-Profit Organizations/Trade Associations**

### • **Community Investing Center**

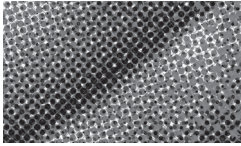
The Community Investing Center is a project of the Community Investing Program of the Social Investment Forum Foundation and Green America. The Center's mission is to provide financial professionals with information and resources to help them channel more money into community investing. This includes "how-to" guidance for investors and the most comprehensive database of Community Investment Institutions (CIIs).

### • **National Federation of Community Development Credit Unions**

Established in 1974 by a coalition of credit union leaders dedicated to revitalizing low-income communities, the Federation's mission is to help low- and moderate-income people and communities achieve financial independence through credit unions. It does this by working to strengthen the credit unions that serve low-income urban and rural communities and encouraging and empowering all credit unions to achieve effective, community-controlled economic development. The Federation also works to ensure that the evolving financial system responds to the needs of low-income communities, and that community development credit unions have the tools and resources to meet emerging challenges.

The Federation works with investors looking to support community development credit unions. It can advise on locations of its members and the Community Development Investment Program provides investment services for those looking to

invest in a broader array of credit unions. Members of the National Federation of Community Development Credit Unions offer federally insured savings accounts and certificates of deposit that offer competitive returns.

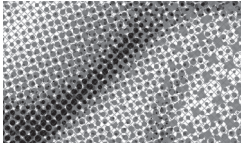


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## Notes

<sup>1</sup> Social Investment Forum, Industry Research Program, *2005 Report on Community Investing Trends in the United States*. Washington, DC: March 2006.

<sup>2</sup> For an interesting discussion on community investment and colleges see John Saltmarsh and Armand Carriere, *PILOTs and Their Problems: A Third Way for Higher Education*, working paper, New England Resource Center for Higher Education, Graduate College of Education, University of Massachusetts Boston, 2008.

<sup>3</sup> [www.communityinvest.org](http://www.communityinvest.org).

<sup>4</sup> A complete listing of CDFIs by state is available at [www.cdfifund.gov/impact\\_we\\_make/state\\_reports.asp](http://www.cdfifund.gov/impact_we_make/state_reports.asp).

<sup>5</sup> The World Bank estimates there are more than 10,000 microfinance institutions worldwide.

<sup>6</sup> Sass Rubin, Julia, "Community Development Venture Capital Funds," from *Financing Low Income Communities: Models, Obstacles and Future Directions*, J. Rubin, ed., New York: Russell Sage Foundation, 2007.

<sup>7</sup> Some of this section relies heavily on Lori Scott and Kathy Stearns, *Due Diligence Primer for Community Investing* (Washington, DC: Community Investing Center, 2006).

<sup>8</sup> [www.voyageur.net/AccessCapital/AoutAccessCapital/default.aspx](http://www.voyageur.net/AccessCapital/AoutAccessCapital/default.aspx).

<sup>9</sup> [www.ccmfixedincome.com](http://www.ccmfixedincome.com).

<sup>10</sup> For more information, see [www.crfusa.com/Pages/Default.aspx](http://www.crfusa.com/Pages/Default.aspx).

<sup>11</sup> "The Entrepreneurial Edge: Community Investment in San Jose," Flanigan, James, New York Times, July 19, 2007.

<sup>12</sup> Community Investing Center, *Investing in People: A Guide to Community Investing*, Washington, DC: 2005). Also, "[P]ortfolio managers are currently investing in two main types of community investing products: 1) market-rate certificates of deposit (CDs) issued by federally insured community development banks and credit unions; and 2) promissory notes, issued by community development loan and guarantee funds (CDLFs) earning returns ranging from 0 to 4 percent, as established by the investor." Noelle Danian, *Community Investing Models for Portfolio Managers of Separate Accounts* (Washington, DC: The Community Investing Center, February 2005, p. 4).

<sup>13</sup> For those interested in another theoretical look at the issue of measuring social return, see Hagerman, Lisa A., *More Than A Profit: Measuring the Social and Green Outcomes of Urban Investments*, Cambridge, MA, Harvard Law School Labor & Worklife Program, July 2007, <http://urban.oucx.ac.uk/wpg07-17.pdf>.

<sup>14</sup> The Rockefeller Foundation and the Goldman Sachs Foundation, *Social Impact Assessment: A Discussion among Grantmakers* (New York: Rockefeller Foundation, March 2003).

<sup>15</sup> Promontory Interfinancial Network was founded by key banking and bank regulator executives in 2002. Based in Washington D.C., Promontory

was created to help small banks compete more effectively with large money center institutions. Large banks, because of their size, normally have a significant funding advantage over smaller community banks. However, CDARS can offer clients up to \$50 million in FDIC coverage to attract larger investors. Promontory offers a range of products and services with CDARS being the most prominent. For more information see, [www.promnetwork.com](http://www.promnetwork.com).

<sup>16</sup> *U.S. Community Investing Index 3rd Quarter Update*: New York: Neuberger Berman, LLC, 2008.

<sup>17</sup> Ibid.

<sup>18</sup> Information for this article was drawn from the CalPERS website ([www.calpers.ca.gov](http://www.calpers.ca.gov)) as well as the works cited in the following endnotes.

<sup>19</sup> J. Mark, "CalPERS Alternative Investment Management (AIM) Program: Investing in California's Underserved Markets." Paper presented at the Inner City Economic Forum: 5th Annual Summit, Philadelphia, October 18, 2007.

<sup>20</sup> T. Hebb, *Pension Funds and Urban Revitalization: California Case Study A: Private Equity: CalPERS' California Initiative* (Cambridge, MA: Harvard Law School, Labor and Worklife Program, 2006).

<sup>21</sup> Pacific Community Ventures, *CalPERS California Initiative: Impacting California's Underserved Communities 2007* (San Francisco: Pacific Community Ventures, 2007).

<sup>22</sup> The AIM team generally uses as its standard the Venture Economics benchmark for private equity. For more on the AIM performance comparisons and investment policy, see [www.calpers.ca.gov/index.jsp?bc=/investments/assets/equities/aim/programoverview.xml](http://www.calpers.ca.gov/index.jsp?bc=/investments/assets/equities/aim/programoverview.xml).

<sup>23</sup> Pacific Community Ventures and Golden State Investment Fund. California Initiative Update. Sacramento, CA: CalPERS, February 2008, available at [www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/item06a-01.pdf](http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/item06a-01.pdf).

<sup>24</sup> Pacific Community Ventures and Golden State Investment Fund. California Initiative Update. Sacramento, CA: CalPERS, February 2008.

<sup>25</sup> This section is based on work by Tessa Hebb, Pension Funds and Urban Revitalization, and Joncarlo Mark, "CalPERS Alternative Investment

Management (AIM) Program." It also draws on J. Kruzel, "Targeted Alternative Investment Programs: Common Best Practices Identified for the Creation and Implementation of Targeted Programs by Limited Partners." Paper presented to the Institutional Limited Partners RBS Committee (Toronto: Task Force on Targeted Alternative Investment Programs, ILPA, 2008). Institutional Limited Partners is a 200-member, not-for-profit association serving limited partner investors such as public pensions, corporate pensions, endowments, foundations, family offices, and insurance companies in the global private equity industry.

<sup>26</sup> [www.calvertfoundation.org](http://www.calvertfoundation.org).

<sup>27</sup> [www.ccmfixedincome.com](http://www.ccmfixedincome.com).

<sup>28</sup> [www.fsg-impact.org](http://www.fsg-impact.org).

<sup>29</sup> [www.opportunityfinance.net](http://www.opportunityfinance.net).

<sup>30</sup> [www.crfusa.com](http://www.crfusa.com).

<sup>31</sup> [www.voyageur.net/AccessCapital/AboutAccessCapital/default.aspx](http://www.voyageur.net/AccessCapital/AboutAccessCapital/default.aspx).

