MEMORANDUM TO BCF INVESTMENT COMMITTEE

TO: BCF INVESTMENT COMMITTEE
FROM: IMPACT INVESTMENT TASK FORCE
RE: POTENTIAL BCF Impact Investing Strategy
DATE: April 19, 2017

Impact investing is being used by foundations of all types and sizes to make a difference in their communities. By investing in ways that generate both a targeted social or environmental benefit as well as a financial return, impact investing can help foundations make the most of their financial assets. ***At BCF, we feel that our initial foray into impact investing should consist of partnering with local intermediaries to lend money that can have a positive impact on the Baltimore community.***

As an aside, "impact investing" can also include applying commercially available Environment, Social, and Governance (ESG) screens to investments. Many foundations are advertising that they are "100% for mission" when they do this. The rationale is that the foundation's work is potentially undermined by business practices of companies whose operations impose uncompensated costs on the foundation's geographic region. After hearing from many of our current and potential donors and from our professional advisors, we have concluded that, while ESG screens can be important, they don't directly impact Baltimore. As a result, ***BCF does not intend to apply an ESG screen to our indexed investments, at least at this time.***

As you know, the Impact Investing Task Force has been evaluating ways in which we can use a portion of our BCF investment dollars to invest for impact on the local community. After much thought, research, and focus groups with stakeholders, we feel that our first foray into "impact investing" should be to ***find strategic partners who lend locally to achieve both social and financial returns***. The BCF Impact Investing Task Force, led by Trustee Patti Baum and supported by BCF staff members, has spent the past year gathering information and learning about how impact investing can complement and enhance BCF's grant making and investment strategies. We are presenting this memo to the Investment Committee to distill key information from that process and present a recommendation for the BCF Board's consideration. We hope to take this to the Board in June 2017 for approval.

BCF has benefitted greatly from the experience of a number of other organizations. We analyzed the impact investing programs run by members of the Mission Investors Exchange Community Foundations Working Group or profiled in MIE's Community Foundations Field Guide to Impact Investing[1]. We looked at 26 community foundations and have included more

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[1] https://www.missioninvestors.org/cfguide

information about the most relevant ones in Appendix D. Sources of funding include the "spendable" or grant making budget, co-investments from donors, or various parts of the endowment. All the peers we examined use some portion of their own money to have "skin in the game," so that was incorporated as a component of our proposal. Work includes loans to foster homeownership, and affordable rental housing, nonprofit facilities, social enterprises, utilities, small businesses, and more. There is typically, although not always, some connection to the foundation's priority grant making areas. The format ranges from making direct investments, to using intermediaries, to creating intermediaries where none exists.

<u>What can impact investing do for BCF?</u>

Impact investing can align more of our capital with our mission. Our current strategy is to invest in index funds, which means that we have no way of knowing the impact, positive or negative, of these companies' practices on our mission. Impact investing as proposed here would allow us to use investment dollars to seek social impact within the Baltimore region, helping leverage our strategies of grant making, initiatives, and advocacy. Investing locally in fixed income instruments offers a new set of tools to apply to Baltimore's challenges, and a highly effective set of partners to work with. Local intermediaries are eager for us to connect them with potential projects in the community, so there is the potential to have even greater control over the social impact of our investment.

Impact investing can generate modest financial returns. We are proposing to invest using assets within the fixed income asset class of the BCF Pool. The investments take the form of fixed rate notes or collateralized CDs. Through the loans we have identified, we could expect interest rates consistent with the last 3-5 years return from passive bond fund options while maintaining the low risk profile of the fixed income asset class.

Impact investing can help us increase our commitment to racial equity. Many of the racially inequitable outcomes that we are trying to address in our core discretionary activities are, at the root, caused by the unequal access to capital in historically Black communities. Several of the intermediary organizations we suggest here are willing to target our investment to benefit low income African Americans.

Impact investing can differentiate our offerings to our donors. BCF held two focus groups for professional advisors and donors. We heard clearly that current and potential donors are interested in local lending because of its potential to leverage their dollars. In particular, members of younger generations and women are seeking to have a greater impact in response to contemporary challenges. There was broad understanding that many of Baltimore's problems stemmed from racial inequities in access to capital. Because of advances in technology, impact investing is becoming more available to the public. We believe that there is a strong value proposition to be made to our donors to leverage their impact in Baltimore through BCF. Staff will continue to investigate the feasibility of soliciting donor co-investments as a future step.

What is the sample portfolio?

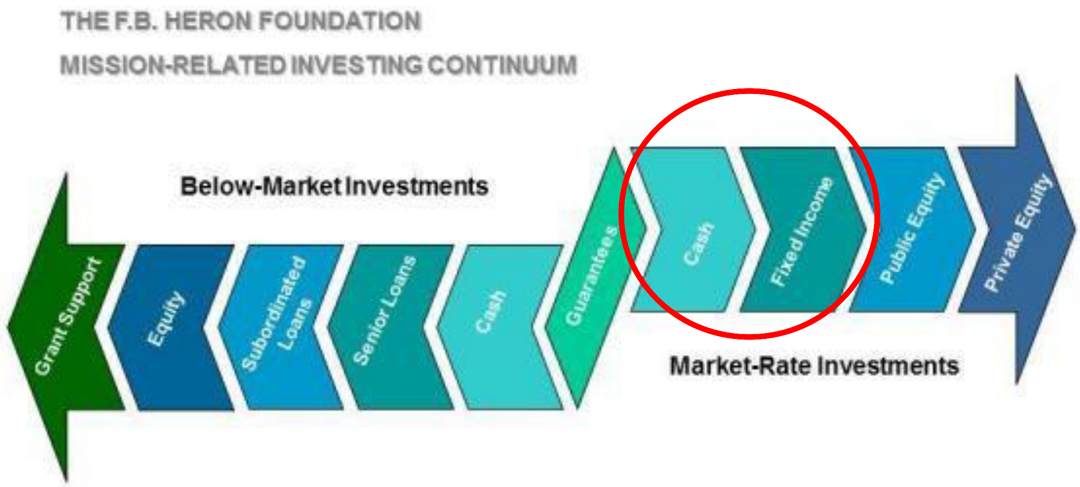
At the Investment Committee meeting of February 15, 2017, the Committee requested a "sample portfolio" to build familiarity with real investments we could make. The sample portfolio is included as Appendix A of this memo. It includes proposals from five well regarded intermediaries who are actively seeking capital and working in Baltimore. They are:

- Healthy Neighborhoods, Inc. (HNI)
- Harbor Bank CDC
- The Reinvestment Fund (TRF)
- Ours to Own Baltimore by the Calvert Foundation
- Enterprise Community Partners

At this time, we strongly recommend using intermediaries rather than trying to develop underwriting capacity in-house. These partners lend in a variety of different sectors, including affordable housing, entrepreneurship, healthy foods, and community facilities. They are all certified Community Development Financial Institutions, although not all are rated by the CDFI rating agency. Not all of these vehicles are currently open at these exact terms, but all of these organizations are interested in working with us and expect to actively seek capital in Baltimore in the immediate future. We recognize that there are other intermediaries in the area that we should contact for potential partnering.

We structured the sample portfolio based upon the following assumptions:

- We will begin with a **$4 million** total investment. ***This represents less than 3% of our total investment assets, about 3.5% of our BCF investment pool, 10% of our discretionary assets, and about 16% of our fixed income target allocation.***
- We aim to achieve a blended return of approximately 3.0%
- We will ladder the notes, with the term length not to exceed one market cycle of 7 years
- We will aim to minimize risk, and further diversify portfolio with investments which are market and interest rate neutral
- We will target the Baltimore area
- We will align loans with our mission, grant making, and our commitment to racial equity



To the extent that we decide to begin including these notes in our fixed income bucket, we believe we can use this as a marketing tool to attract new and encourage existing donors to co-invest. It is also important to consider the value proposition that BCF's participation adds. The large national organizations, such as TRF, Calvert, and Enterprise, currently accept investments in their note programs that are independently accessible to our donors in modest denominations as low as $20.   HNI, on the other hand, offers investment opportunities that only a large foundation or corporate investor can accommodate. Harbor Bank CDC is interested in working with BCF to help them pilot an underwriting algorithm that can reduce the cost of serving low income borrowers, a critical hurdle for getting capital into African American communities.

We believe that impact investing is positioned as a tool to further our mission to improve the quality of life in Baltimore. The case becomes stronger when we tie it to our strategic direction. The proposed intermediaries in the sample portfolio have an obvious connection to our work in neighborhoods. For example, rehabilitating vacant housing makes neighborhoods safer and stabilizes home values, which directly impacts accumulation of wealth.   Providing access to capital for employment and entrepreneurship opportunities directly impacts economic security and family stability. Impact projects like R House in Remington and the Shop-Rite of Howard Park have added to the vibrancy of their neighborhoods.

<u>How is BCF currently investing its fixed income dollars?</u>

The fixed income asset class of the BCF pool is currently invested in indexed bond funds, with a goal to preserve the value of the capital and increase diversification within the pool. The current value of BCF's fixed income securities is approximately $25 million. The average return over the last 5 years for the bond funds in which we are invested was 2.58%. The sample impact investment portfolio is expected to produce a blended return of 2.8%. The loans would offer further asset diversification as the rate of return would not be subject to market conditions and related volatility. Given the prospects of higher interest rates, we suspect this loan portfolio could outperform short to intermediate term bonds. Laddering the notes in the sample portfolio will also help mitigate interest rate risk. The credit risk associated with the sample impact investment portfolio is low to medium, not dissimilar to the indexed funds already in the pool.

<u>Proposed next steps and decision timeline</u>

The process of moving from the research stage to implementation requires a disciplined approach consistent with the due diligence required for any new BCF program. We suggest the following step by step approach:

1. <u>Authorization to pursue an Impact Investing program</u>

    a) At its April 17, 2017 meeting, The Impact Investing Task Force discussed and tweaked the attached sample portfolio. We also discussed sources of funds for this loan program and concluded that these Baltimore loans are most appropriate for a portion of our fixed income allocation in the BCF Investment Pool.

    b) The Task Force recommends an initial investment of up to $4 million, based on availability of local lending opportunities. ***This represents less than 3% of our total investment assets, about 3.5% of our BCF investment pool, 10% of our discretionary assets, and about 16% of our fixed income target allocation.***

    c) The Task Force will present a revised recommendation to the BCF Investment Committee at its May 24, 1017 meeting.

    d) For the purposes of this memo, we assume that the Investment Committee wants to move forward. The Investment Committee will make a recommendation to the full Board of Trustees at its June 7, 2017 meeting. This recommendation will include a summary of information reviewed by the Investment Committee, and proposed governance structure, type and amount of funds to invest and connections to the new strategic direction.

    e) Also at its June 7th meeting, the Board will be asked to approve a recommended strategic direction from the Strategic Planning Task Force. Having both recommendations at the same time will send a clear message that impact investing will be an important component of BCF's new strategic direction.

2. <u>Program and policy development</u>

   Approval from the Board to move forward will trigger the following actions:

   a) Form an Impact Investing Committee – This Committee will function as a sub-committee of the Investment Committee and take the lead in program development and management. It will be supported by a staff team, which will be comprised of finance, community investment and donor services staff members.

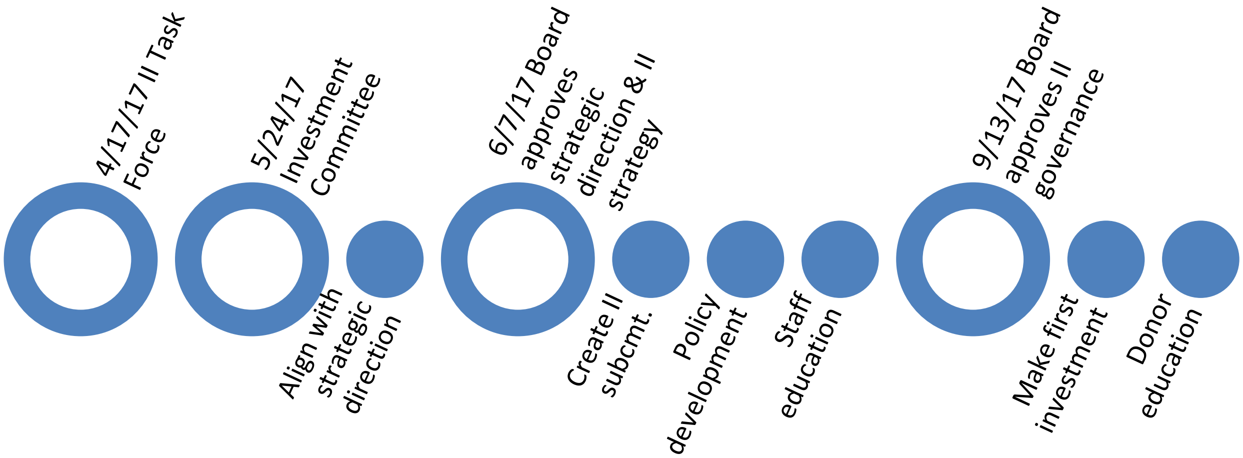
   b) Develop charter and policy documents – These documents will be reviewed by the Investment Committee and brought to the Board for approval at its September 13th meeting. A sample impact investing policy is included as Appendix B.

   c) Integrate impact investing into strategic plan development – The Board will approve a new strategic direction on June 7th, and a more detailed strategic plan will be finalized in late 2017. Members of the Impact Investing team – staff and committee members – should play an active role in plan development. The final plan will include specific goals and objective, which will guide specific impact investment decisions.

3. Donor education and involvement

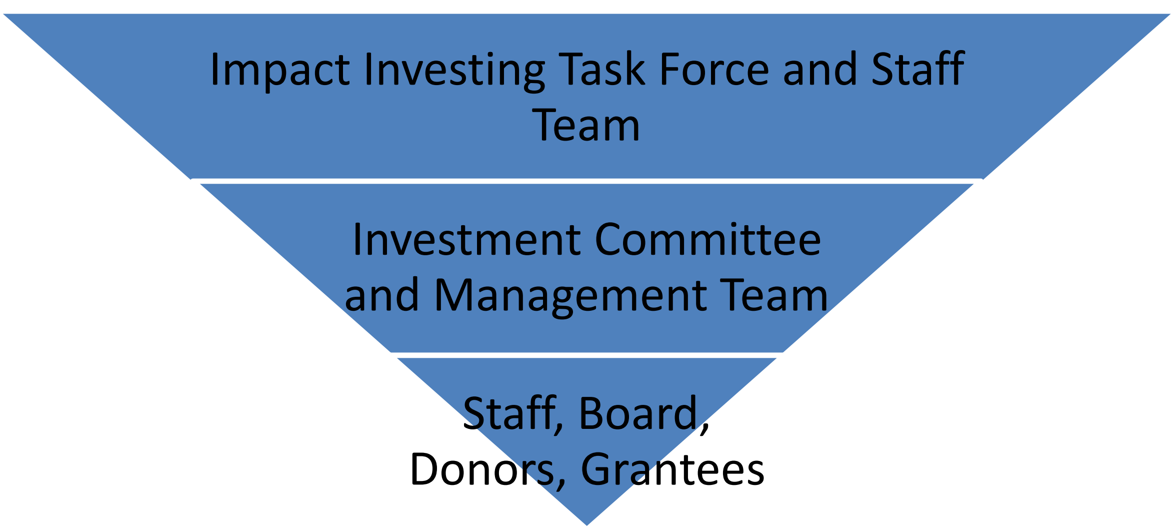
   Staff recommends that initial funds to start an impact investing program be from BCF's fixed income asset class. After the program is established and we have made investments that align with the new strategic plan, we will develop strategies to involve donors. This will include education and engagement and opportunities to invest. The development staff believes that there are several donors who are already interested in local lending for impact, and they will begin introducing this as they meet with these folks.

   There is a general feeling that we may have donors who may choose a separate option for their funds that is specifically and exclusively designed for local impact lending.



Proposed education and engagement structure

We have been delaying a major education effort until we receive the green light from the committee. However, we should be ready when the time comes to equip BCF staff, board, and other interested stakeholders with the information they need to make decisions, talk about what we are doing and identify potential investment opportunities. As illustrated in the graphic below, the core team and decision makers need to know the greatest level of details, whereas Management and the Investment Committee should be able to articulate our general impact investing goals. Everyone connected to the organization should be able to know generally what impact investing is, that we are doing it, and the kinds of things it allows BCF to accomplish.



One of the tasks of the core staff team will be to create education materials for the other groups, in partnership with our Communications department. We have identified several excellent free resources that provide a solid introduction to impact investing. We are also in regular communication with the Mission Investors Exchange and other providers of technical assistance to community foundations starting impact investing programs. Some recommended education resources that were utilized in the development of this program so far and could be accessed by others include:

- ABAG's Impact Investing series
- MIE community foundations guide
- Case Foundation Short Guide to Impact Investing
- FB Heron Foundation

An outline of a potential education series for staff is included as Appendix C.

Staff Recommendation

BCF should invest $4 million out of its fixed income assets into a "Baltimore (Ô×ÈÊÛ Pool". An investment of $750,000 to $1 million in four or five of the described vehicles in the sample portfolio would be a great market neutral component in our fixed income allocation. The impact investment sub-committee of the Investment Committee will choose and monitor each of the loans.

Appendix A: Sample Portfolio

At a Glance

Metric	HNI	Harbor Bank CDC	TRF	Calvert	Enterprise
Project Type	Homeownership	Small business	Health Food	Social enterprise, housing, community facilities	Rental housing, community facilities
Sample Rate	4%	3.25%	2.25%	2%	2.5%
Sample Term	7 years	5 years	5-6 years	5 years , they can customize, but they have 1-15 year terms	5 years, they have 1-10 year terms
Total Assets	$30.5 million	$288 million	$950 million	$290 million	$250 million
Past performance	95% repayment	98.5% repayment	100% repayment	100% repayment	100% repayment
Year Founded	2004	1982	1985	1988	1996
REI lens?	Yes	Yes	No	No	No
BCF participation catalytic?	Yes	Yes	No	No	No

Product Name	Developer Line of Credit	Community Energy Savers Loan Program	Loan Pool
Sponsor	Healthy Neighborhoods Inc.	Healthy Neighborhoods Inc.	Healthy Neighborhoods Inc.
Short Description	Provides financing for the development of small single-family for-sale projects in HNI's "Healthy Neighborhoods"	Provides low interest energy efficiency loans to assist nonprofits and property owners of small commercial buildings, including owners and long term lessees, in saving money Over 90 facilities have been done.	HNI has invested $146 million in 41 Baltimore middle neighborhoods, improving over 550 homes and rehabilitating 210 vacant homes.
Social Impact			
Programmatic Alignment	Neighborhoods	Sustainability, neighborhoods	Neighborhoods
Geographic Focus	Middle neighborhoods in Baltimore	Middle neighborhoods in Baltimore	Middle neighborhoods in Baltimore
Relevant IRIS metrics	- Number of Housing Units Improved (PI6058) - Value of Housing Units Financed (PI7233) - Number of vacant homes in neighborhood (available locally but not an IRIS metric)	- Energy Savings from Services Sold (PD4927) - Building Area of Energy Efficiency Improvements (PI1586)	- Number of Housing Units Improved (PI6058) - Value of Housing Units Financed (PI7233) - Number of vacant homes in neighborhood (available locally but not an IRIS metric)
Racial Equity: Operational Impact	16% of staff are POC. 20-25% of board members are POC. HNI works with several smaller, minority-owned developers but is not required by policy to do so. We could potentially ask that our funds go to POC developers.		
Racial Equity: Product Impact	- Although neighborhood marketing is done in a colorblind fashion, HNI's work in majority-minority neighborhoods helps homeowners of color build/rebuild equity by lifting home values. We could target our funds to neighborhoods with high levels of Black homeownership.		

	-Most of the churches assisted by the energy financing are centers of the neighborhood's African American community.		
Partners	TBD	BG&E	- M&T Bank (40% of pool, construction lender) - Other banks - Maryland Housing Fund - Guarantees from Abell, Goldseker
Value-add of BCF's participation	- Active need for financing. HNI's balance sheet is not as strong as some others we are looking at so they are less able to access affordable capital. - History of HNI as a BCF initiative - Cheryl's service on Board means we have decision making authority.		
Financial Impact			
Type of capital	Construction financing (debt)	Permanent financing (debt)	Permanent financing (debt)
Rate (return)	7-8%	Approx. 2.5%	4%
Term (liquidity profile)	2 years	15 years	7 years
Risks	Medium – not secured by HNI balance sheet. Construction lending tends to be high risk. May be able to be covered by Loan Pool guarantee or sold to another developer to recoup investment.	High – not secured by HNI balance sheet. While it is likely that the energy savings projected will be achieved, utility rates are outside of the control of HNI/borrower.	Medium – not secured by HNI balance sheet, but has a loan guarantee. Previous pool had a 5% loan loss rate ($2 million) requiring HNI to call the loan guarantee

Project examples in Baltimore:

"Callow Avenue Comeback": $2.5 million

Healthy Neighborhoods, Inc. is helping the Reservoir Hill Improvement Council and the Druid Heights Community Development Corporation to eliminate one of the last concentrated areas of blight in Reservoir Hill. Most of the funding comes from proceeds from HNI's Neighborhood Stabilization Program -2 work, a federal grant now being recycled and a $750,000 Baltimore Regional Neighborhoods Initiative (BRNI) grant. Druid Heights CDC & SM+P Architects are working closely with Baltimore City Commission for Historical & Architectural Preservation

(CHAP) to ensure proper historic preservation approaches and details. Each will be Energy Star Qualified new homes. and the site plans will minimize impervious material, providing garden and lawn spaces where possible. Reservoir Hill is a BCF Target Neighborhood so this example directly supports BCF's discretionary grantmaking.

Product Name	Harbor Bank CDC
Sponsor	Harbor Bank
Short Description	HBCDC focuses on increasing access to capital and job creation for entrepreneurs of color. They have developed a scalable $1 million investment for us that consists of grant funding for technical assistance, direct loan guarantees, SBA leveraged guarantees, and the piloting of a technology assisted underwriting model that could open up the resources of the parent company, Harbor Bank, to otherwise un-bankable borrowers.
Social Impact	
Programmatic Alignment	Asset building, REI
Geographic Focus	Greater Baltimore (City and County)
Relevant IRIS* metrics ***(*IRIS metrics are generally accepted to measure the social, environmental, and financial performance of an investment)***	New Businesses Created: Total (PI4583) Value of Loans Disbursed (PI5476) Non-Performing Loans (Portfolio at Risk)- 30 Days (FP2635) Non-financial Support Offered (PD9681) Jobs Created at Directly Supported/Financed Enterprises: Total (PI3687)
Racial Equity: Operational Impact	Harbor Bank is one of only 23 Black-owned banks in the country and has a primarily African-American staff and board.
Racial Equity: Product Impact	HBCDC focuses on serving borrowers of color and would target our investment accordingly. Estimated 50 businesses served by TA and 35 by loans Part of technical assistance is access to venture capital and politicians in Harbor Bank's network
Partners	Small Business Administration (SBA)
Value-add of BCF's participation	BCF has access to products that the average investor would not, including the opportunity to help HBCDC pilot a technology assisted underwriting model for an underserved portion of the market. These loans are un-bankable, as demonstrated by the fact that Harbor Bank was not able to service them, but the CDC can due to having fewer regulations.
Financial Impact	
Type of capital	Blended grant/loan guarantee/debt
Rate (return)	Blended rate of 3.26%
Term (liquidity profile)	5 years (2 year to customer, revolve 2.5x)
Risks	Medium – our money would be held in fixed income securities. However, a portion would be used to guarantee potential losses. There is little risk from the

	SBA guarantee side as Harbor Bank has been using it successfully for years.

Strength of Sponsor:

With nearly $249 million in assets, Harbor Bank has seven locations around the region. Harbor Bank Community Development Corp. has been around for at least 15 years, but went dormant during the last recession. The organization started seeking out businesses again in 2014 and has invested in 40 companies as of 12/2016. The program grew out of concern that minority businesses, especially those in underserved east and west Baltimore neighborhoods, aren't getting their fair share of venture capital funding and traditional bank financing. The organization helps entrepreneurs develop business plans and budgets, and can offer alternative financing options, such as a royalties agreement, that the bank cannot. In a handful of cases, the organization has even made a small equity investment to validate the company in the eyes of other investors and attract add-on funding.

Project Title	Program Related Investment (PRI)	Promissory Note
Sponsor	The Reinvestment Fund (TRF)	The Reinvestment Fund (TRF)
Short Description	A PRI can be an essential source of low cost capital for Reinvestment Fund's loan fund and has been critical in providing the flexibility to make loans that do not fit the parameters of capital deployment from a for profit bank. Reinvestment Fund has used PRIs in combination with other investments in our loan fund to offer very flexible, low cost, debt capital for our projects.	Our Promissory Notes offer an opportunity to invest in a diversified, direct loan fund with over 865 investors. The loan fund has been at the heart of Reinvestment Fund's work since our founding in 1985 and is largely responsible for the many projects we have funded over the years.
Social Impact		
Programmatic Alignment	Minimum investment of $100,000, can be aligned to a service sector. TRF has expertise in healthy foods financing.	None
Geographic Focus	Minimum investment of $100,000	None
Relevant IRIS metrics	TRF does NOT use IRIS. TBD depending on the project	TRF does NOT use IRIS. TBD depending on the project
Racial Equity: Operational Impact	12% of senior staff are POC. 21% of board members are POC. Central Baltimore Fund requires 30% of contracts to go to minority owned enterprises, 50% of permanent jobs to go to local residents, and 20% of jobs to go to low income residents participating in a workforce program.	
Racial Equity: Product Impact	Could target neighborhoods of color, require local hiring, etc.	No ability to target to people of color
Partners	We could bring them deals and define/recruit partners	N/A – hundreds of partners
Value-add of BCF's participation	High – this would be a good product to use if we had a particular programmatic goal	Medium -- BCF donors are unlikely to independently hit the geographic targeting level.
Financial Impact		
Type of capital	Debt	Fixed Income
Rate/Term	Defined by us but a more concessionary rate than the note	3-4 years: 1.5% 5-6 years: 2.25% 7-9 years: 2.75% 10-14 years: 3.25%

		15-30 years	4%
Risks	High – unsecured, meant to be in a subordinate position to other capital	Low – secured by TRF's balance sheet. 100% repayment to investors	

Project Examples:

Central Baltimore Future Fund: $10 million

The Central Baltimore Future Fund (CBFF) is a $10 million loan pool designed to work in concert with a comprehensive neighborhood revitalization strategy to eliminate blight and stimulate economic growth. CBFF provides loans to developers and building owners who are creating high-impact real estate projects. CBFF bring together a broad array of partners such as the Abell Foundation, Annie E. Casey Foundation, City of Baltimore, First Mariner Bank, Goldseker Foundation, Howard Bank, Johns Hopkins University, Living Cities Foundation, M&T Bank, MECU, PNC Bank and Rosedale FSB. CBFF is managed by Reinvestment Fund, which is also responsible for underwriting, closing, and monitoring all CBFF loans.

The fund is a major component of the Homewood Community Partners Initiative (HCPI) agenda. HCPI is an economic development agenda launched by Johns Hopkins University and prepared in partnership with stakeholders from the 10 neighborhoods within the HCPI footprint. HCPI is driven by 29 specific goals in pursuit of attracting 3,000 new households and $1 billion in capital investments by 2022. CBFF is a powerful tool integral to advancing HCPI's goals to build on the momentum in Central Baltimore.

ShopRite of Howard Park

The Howard Park neighborhood had been without a grocery store for over a decade and was a USDA Food Desert and a Reinvestment Fund Limited Supermarket Access area, where an estimated $60.9 million of grocery retail demand leaked annually ($1.2 million per week). With many residents lacking a car and over a fifth of the families living in poverty, a local supermarket was paramount. TRF used a Healthy Food Financing Initiative (HFFI) award through the US Department of Health and Human Services (HHS) to provide a low-cost loan that supported pre-developmental costs. They then used $14.65 million in New Markets Tax Credit financing towards the construction and permanent financing of a standalone supermarket space. A separate transaction financed the fit-out of the store.

Community input shaped the store's design and plans to cater to the diverse preferences of the Howard Park community by carrying a broad array of ethnic products in the store. The grocery also benefits the community by housing a 1,000 square foot health clinic and pharmacy along with community rooms. The supermarket operators also worked with the Baltimore bus transportation system to design a store parking lot that accommodates a major bus stop at its front entrance for the ease of local shoppers. Project partners included Baltimoreans United in Leadership Development (BUILD), Baltimore Development Corporation (BDC), the Howard Park Civic Association, Calvin Rodwell Elementary School's Child First after school program, Klein Family Markets, UpLift Solutions, Opportunity Finance Network (OFN), City First Bank, JPMorgan Chase and Reinvestment Fund. It also created 250 full-time and part-time jobs, many of which are filled by neighborhood residents.

Product Name	Enterprise Community Impact Note	
Sponsor	Enterprise Community Partners	
Short Description	Enterprise Community Loan Fund (ECLF) will deploy capital as needed to projects in Baltimore including affordable housing, schools, community facilities, etc. ECLF offers predevelopment, acquisition, bridge, and construction loans, as well as permanent capital through the CDFI Bond Guarantee program	
Social Impact		
Programmatic Alignment	N/A - Investors cannot select project types	
Geographic Focus	Notes of over $500,000 may be geographically targeted to Baltimore	
Relevant IRIS metrics	**Enterprise Community Partners is using IRIS**. Number of Housing Units Financed (PI5965) Area of Community Facilities Financed (PI4765) Number of Community Facilities Financed (PI8007)	
Racial Equity: Operational Impact	More than 50% of senior staff are women or people of color. 25-50% of board members are women or people of color. Main Baltimore development partner is Seawall Development, which is not women or POC owned.	
Racial Equity: Product Impact	No ability to target to people of color	
Partners	N/A – Hundreds of other investors	
Value-add of BCF's participation	BCF donors are unlikely to independently hit the geographic targeting level.	
Financial Impact		
Type of capital	Fixed income	
Rate/Term	1 year	1%
	2 years	1.5%
	3 years	2%
	5 years	2.5%
	7 years	3%
	10 years	3.5%
Risks	Low – guaranteed by parent company balance sheet. Repayment to investors has been 100%	

Strength of sponsor:

As a U.S. Treasury Department-certified Community Development Financial Institution (CDFI), the Enterprise Community Loan Fund:

- Is one of the largest nonprofit loan funds in the country

- Has $100-250 million in assets under management
- Has invested more than $1.5 billion in low-income communities
- Has helped build or renovate nearly 100,000 affordable homes nationwide
- Is a member of the Opportunity Finance Network and an AERIS rated CDFI

The Loan Fund also leverages financial, technical and policy resources from across all of Enterprise's leading entities. That means they bring specialized expertise and innovative financing structures to support their borrowers' community development goals.

Project examples in Baltimore:

Douglas Memorial Apartments: $930,000
The requested loan will be used to finance predevelopment, demolition, and rehabilitation costs for the Douglas Memorial Apartments. The Douglas Memorial Apartments development is comprised of more than 50 affordable rental homes in the Midtown neighborhood of Baltimore.

Pedestal Gardens: $1,675,000
The Community Builders will utilize a loan to acquire Pedestal Gardens, a 207 apartment complex in Baltimore, MD. The development is a key component of the Choice Neighborhoods redevelopment project, which aims to transform the entire neighborhood.

Hollins House: $900,000
The rehabilitation of Hollins House will provide much-needed improvements to the homes of 130 low-income senior citizens and disabled residents. Hollins House is located in the Hollins Market neighborhood, which is adjacent to the University of Maryland Medical Center. Residents benefit from on-site support services, and its close proximity to the Medical Center and public transportation allows residents to easily access health care and other necessary services and amenities. Hollins House is being redeveloped through the Rental Assistance Demonstration program aimed at recapitalizing public housing buildings which serve extremely low-income residents typically earning below 30% Area Media Income.

Product Name	Ours To Own Baltimore	
Sponsor	Calvert Foundation	
Short Description	Ours To Own is a growing movement of people creating economic opportunity by investing in ourselves.	
Social Impact		
Programmatic Alignment	N/A – investors may not select project types	
Geographic Focus	Baltimore	
Relevant IRIS metrics	**Calvert is using IRIS.** Calvert uses 26 different metrics covering production and operations, including green measures.	
Racial Equity: Operational Impact	More than 50% of senior staff are women or people of color Less than 25% of Board members are women or people of color Rodney Foxworth is a project advisor of Ours To Own Baltimore	
Racial Equity: Product Impact	No ability to target to people of color	
Partners	N/A – hundreds of other partners	
Value-add of BCF's participation	Low – our donors could invest independently. However, BCF can bring OtO potential loans and broker partnerships	
Financial		
Type of capital	Fixed income	
Rate/Term	1 year	1%
	3 years	1.5%
	5 years	2%
	5 years	2.5%
	10 years	3%
	15 years	4.0%
Risks	Low risk – backed by Calvert's balance sheet. 100% repayment history to investors	

Strength of Sponsor:

Calvert Foundation enables people to invest for social good. Calvert Foundation is a 501(c)(3) nonprofit social investment fund. Calvert Foundation created the Community Investment Note (Note) in 1995 to be a vehicle connecting investors and communities. Through the Community Investment Note, an investment security with a 20+-year track record of solid performance, we connect individual investors with organizations working around the globe, developing affordable housing, creating jobs, protecting the environment, and working in numerous other ways for the social good. Over the life of Calvert Foundation, over 15,000 investors have invested over $1.2 billion dollars to support these organizations. By creating innovative financial products and services, Calvert Foundation is helping to establish a more effective social capital market in which all types of investors are connected to high-impact organizations and communities in need. Calvert currently has over $250 million in assets under management.

Project Examples in Baltimore:

Details (Humanim)

Humanim's social enterprise, Details, is a particularly creative and elegant solution to a community problem. There are homes and structures that need to come down in order for Baltimore to rebuild. Woven throughout these is the Baltimore brick. Details creates jobs deconstructing Baltimore, brick by brick and board by board, while creating and serving secondary markets for the repurposed materials. The 135 quality jobs they have provided for talented residents from all over the city have created more happy, healthy neighbors and residents. Calvert collaborated with the Goldseker Foundation and the Aaron and Lillie Strauss Foundation on this investment.

Remington Row: $2.5 million

Ours To Own has made a $2.5 million loan to develop Remington Row, a new warehouse-style housing, retail and office space in the diverse and historic neighborhood of Remington, just south of John Hopkins' Homewood campus. Remington Row is part of a larger neighborhood revitalization effort activating creativity and innovation for the benefit of its residents. The community helped to inform the retail and resources being introduced at the site, including a 30,000 square feet health clinic and more than 100 apartments for those excited to make Remington their home. This project will not only bring commerce and beauty to the neighborhood, it will also foster employment growth. It is estimated to create approximately 200 construction jobs and 165 permanent jobs for Baltimore.

Monarch Academy: $5 million

Children and parents in Baltimore are celebrating the expansion of an innovative education model. Monarch Academy, a tuition-free public charter school, helps K-8 students to be self-motivated, creative and critical thinkers, committed to a life of learning and participation in community. In a city where 83% of students are eligible for free and reduced-price meals, effective models and inspiring learning environments are needed to support the growth of our city's children. Monarch manages a rigorous, highly innovative and interactive instructional program that integrates the arts and technology across the curriculum.

Ours To Own is supporting the renovation of new facilities to better serve Baltimore families. The school's new property was acquired from a former Coca-Cola bottling plant, renovated to include a gym, cafeteria, kitchen, library, music and art centers, offices and classrooms. Ours To Own made a $5 million loan for the development of 15,000 square feet of the property into an exciting and safe playground, and additional programming space for classrooms and a drama/media room. The construction of the playground brought together over 100 local volunteers who, in one day, built a colorful new play structure that was designed by the students. Investments in Ours To Own helped to build this vital new space enjoyed by more than a thousand children in Baltimore.

Appendix B: Impact Investment Policy of The Denver Foundation

OVERVIEW & BACKGROUND

The Denver Foundation (the "Foundation") is a 501(c)(3) public charity the mission of which is to inspire
people and mobilize resources to strengthen our community.

In 2013, the Foundation's Board of Trustees (the "Board") began exploring an impact investing program to:

1. Advance the Foundation's Strategic Goals
2. Learn about Impact Investing
3. Leverage Community Objective Grants
4. Engage Fundholders and Donors
5. Preserve Capital
6. Develop Partnerships

At that time, the Board committed $1M from the Foundation's operating reserves to fund a three-year impact investing pilot project. Additional funds have been raised from donors. In 2015, the Impact
Investing Committee (the "Committee") created an Impact Investment Pool (the "Pool") to allow certain
Foundation donor-advised funds to participate in a pilot project of philanthropic investing.

In 2016, at the end of the three-year pilot program, Foundation staff reported results to the Board. At that time, the Board approved a resolution:

1. To continue the impact investing program (the "Program"); and
2. To transition the Committee to a standing committee to oversee the Program.

In addition to continuing the Program, the Committee is recommending the Program be expanded to offer certain donor-advised fundholders the opportunity to participate in impact investing by recommending direct impact investments from their funds. This Policy outlines the current Program, as expanded to donor-advised funds. It is meant to be a working document that will be amended over time as the Program evolves. The Committee will make recommendations on amendments as necessary for review and approval by the Board.

PURPOSE AND SCOPE

The purpose of this Impact Investing Policy ("Policy") is to guide the Board in effectively supervising, monitoring and evaluating the Program. This Policy is adopted by the Board in order to:

1. State in a written document the Board's objectives and guidelines for the Program.
2. Establish the duties and responsibilities of the Board, the Committee, and Foundation staff as they relate to the Program.
3. Set forth the criteria for an impact investment.

4. Set forth the process for evaluating and making an impact investment.
5. Set forth the process for monitoring and reporting on impact investments.

DUTIES AND RESPONSIBILITIES

The Board has the ultimate fiduciary responsibility for the Program. It is responsible for adopting and amending the Policy and for overseeing the management and investment of the Program. To manage and invest the Program effectively and efficiently, the Board hereby delegates the following responsibilities to the persons listed below:

1. *Impact Investing Committee*. The Committee's composition and responsibilities are set forth in the Committee's Charter, as it may be amended from time to time by the Board. The Committee is authorized by the Board to review and approve investments of up to and including $250,000 in size. Investments exceeding $250,000 must be recommended by the Committee and approved by the Board. The Committee reports to the Board at regularly scheduled board meetings, and makes recommendations to the Board regarding amendments to this Policy.
2. *Staff.*
    a. Impact investing lead staff. A representative from the Philanthropic Services group and a representative from the Programs team will serve as staff leads and identify impact investment opportunities, monitor investment pipeline, and make investment recommendations to the Committee.
    b. Finance and Administration Staff. Finance and Administration staff will create loan schedules, service all investments, and create reporting dashboards for the Committee and Board. The Vice President of Finance and Administration will review and oversee financial reports.
    c. Philanthropic services staff. Philanthropic services staff will engage donors and donor advised fundholders to support the Foundation's impact investments and support fundholders who are interested in recommending impact investments from their donor advised fund.
    d. *[Investment Associate. New Position for 2017 pending funding and approval by the Board]* The Investment Associate will conduct due diligence on potential investments and/or engage consultants as appropriate for due diligence activities.
3. *Additional specialists*, such as attorneys, auditors, actuaries, and others, may be employed by the Foundation to assist the Board in meeting its responsibilities and obligations to administer the Program prudently.

CRITERIA

The Foundation will consider impact investments that meet all the following criteria:

1. The investment must meet the following requirements:
    a. The primary purpose of the investment must be to further one or more exempt purpose of the Foundation;

    b. The production of income or the appreciation of property shall not be a significant purpose of the investment; and
    c. The investment cannot be used to fund electioneering or lobbying activity.
2. The investment must further one or more of the Foundation's strategic goals or objectives in the following areas.
    d. Basic Human Needs
    e. Economic Opportunity
    f. Education
    g. Leadership & Equity
3. The investment must have the potential for significant, measurable, community impact.
4. Although the investment may have a higher risk profile than traditional investments, the investment must have a reasonable likelihood of repayment that can be projected with defensible assumptions. The average annual return on the Program's loans will be targeted at 2 – 5%; however, the Impact Investing Committee has the flexibility to accept lower rates of return from investments that have the potential to generate exceptional social outcomes.
5. Impact investments may include, but are not limited to, recoverable grants, loans, loan guarantees, convertible debt, and equity. In general, impact investees will be 501(c)(3) organizations or governmental entities. However, Foundation staff may recommend, and the Committee or the Board (as applicable) may approve, impact investments in for-profit entities; provided, Foundation staff has consulted with legal counsel regarding such proposed investments. In addition to the above requirements, for impact investments recommended from donor-advised funds:
    a. The recommended impact investment may be made for impact areas other than those listed above, so long as such investment is consistent with the Foundation's mission and purposes;
    b. The initial impact investment amount may not exceed 95 percent of the value of the donor-advised fund; and
    c. The Foundation must obtain from the donor a written acknowledgement that the donor: (i) has recommended and approves the impact investment, and (ii) understands that impact investments involve substantial risk, including the fact that there is no guarantee of a return of principal and the possibility that funds may be illiquid as a result of the investment and therefore not available for grantmaking.
6. At times staff and the Committee may identify investments that have a social impact and a market-rate of return (also known as mission-related investments or MRIs). In a case where the primary goal of the investment is social, the Committee may consider the investment for the Program. If the Committee determines the investment is not a good fit for the Program, it may refer the investment to the Foundation's Investment Committee for its consideration as a market-rate investment.

THE INVESTMENT PROCESS
The Foundation's impact investment process comprises four stages:

Preliminary review. Foundation staff will undertake a preliminary review to assess whether the proposed investment meets the criteria contained in this Policy. Foundation staff should collect basic and readily available financial, organizational, and project information on the prospective investee. If the proposed investment meets the criteria contained in this Policy, Foundation staff will present a summary of its findings and recommendations to the Committee, which makes the decision to either proceed with the next stage of the process, or terminate the process.

Due diligence. If the Committee makes the decision to proceed with the next stage of the process, Foundation staff will undertake a more formal due diligence phase to assess the proposed impact investment in detail. A written proposal, business plan, and other supporting documents will be required from the prospective investee. After review of these materials, Foundation staff and Committee members as available will undertake a site visit to meet with key leadership of the prospective investee. Foundation staff will also consult with legal counsel to ensure there are no legal issues with respect to the investment.

Investment Memo. At the conclusion of the due diligence process, Foundation staff will prepare an investment memo for review by the Committee. The Committee may either approve or turn down the investment. Investment decisions will be made at regular Committee meetings and can also be approved via email should the timing of a meeting not coincide with the investment timeline.

Closing. After the Committee approves an investment, Foundation staff will work with the investee and legal counsel on a closing process that includes the negotiation of a loan agreement, promissory note, and/or other supporting documentation necessary for the investment. After the necessary documents have been finalized and executed, the Foundation will transfer funds to the investee.

MONITORING AND REPORTING
All investees are required to submit:

1. Quarterly reports on social outcomes related to the investment.
2. Quarterly financial reports and annual audited financial statements (as applicable).

Foundation staff will review the financial performance of the investment portfolio on a regular basis and report to the Committee at least quarterly. Both financial and social return aspects of the Program will be reported annually to the Committee and the Board. Pertinent information from impact investments from donor-advised funds will also be reported to the donor-advised fundholders.

LOSS POLICY
In the event of a late payment on a loan, Foundation staff will immediately communicate with the investee. If necessary, Foundation staff, with input from the Committee, will revise payment schedules to avoid a default. Foundation staff will report to the Committee on all late payments as a part of regular portfolio reports.

If an investee defaults, Foundation staff and Committee members will determine whether there is appropriate recourse from the investee or any of its guarantors.

DONOR-ADVISED FUNDS
Process
Impact investments from donor-advised funds will be subject to the terms outlined in this Policy, as well as any additional guidelines adopted by the Foundation. In addition, because donor-advised funds are subject to specific tax rules, additional due-diligence related to donor-advised funds will be conducted related to

1. Conflict of interest
2. Prohibited benefit
3. Excess business holdings
4. Taxable distributions

Foundation staff will also consider additional tax and tax reporting requirements—such as unrelated business income tax and expenditure responsibility—when reviewing impact investments from donor advised funds.

Fees
In order to compensate the Foundation for additional staff time related to impact investments from donor-advised funds, the Foundation may assess fees for each impact investment recommended from a donor-advised fund to the fund. For example, the Foundation may charge an hourly fee to a fund for due-diligence required to approve impact investments recommended from that donor-advised fund.

Other expenses incurred for an impact investment recommended from a donor-advised fund, such as legal fees, will be charged to the fund. Additionally, the Foundation may charge an annual impact investment administrative fee to a donor-advised fund for each investment from that donor-advised fund.

Appendix C: Potential impact investing training series for staff

1. 101: What is impact investing and why do foundations do it?
    a. Icebreaker: How many of you have investments? How many of you have impact investments? How many have done Kiva? How many bank with a credit union?
    b. How lack of access to capital has affected Baltimore's communities
    c. Examples of impact investments from either other Baltimore foundations or other community foundations
    d. Basic terms
        i. Loan vs. grant
        ii. Debt, equity
        iii. Interest
        iv. Risk
        v. PRI vs. MRI
        vi. "ESG" and screening
    e. Introduction to our investment statement (if approved by Board by then)
    f. Survey – what follow-up questions do you have that we should cover in subsequent trainings?
2. Potential Baltimore vehicles
    a. Ideas from CI staff -- have them describe directly if possible
        i. Something that builds on our Target Neighborhoods work, e.g. small business support, affordable housing development
        ii. School greening
        iii. Community schools development
        iv. Housing development
    b. Introducing the idea of intermediaries
        i. Local banks, CDFIs
        ii. HNI
        iii. Ours to Own/Calvert
        iv. Propel collective through Abell
    c. Using impact investing as a vehicle to expand our endowment – the Benefit Chicago example
3. Due diligence and risk management
    a. Introduction to our endowment portfolio, cash pool vs. BCF pool vs. potential impact pool – PATTI? Deeper dive on the risk of what we're currently invested in and the return we're hoping to make on each piece
    b. Risk/return continuum and products for the type of risk we're willing to take
    c. Loan loss reserves

d. Factors outside the borrower's control – are there elements we or the intermediary can impact?
e. What happens in a default? What remedies could we pursue?
f. Measuring impact in addition to financial return

Appendix D: Other Community Foundation’s Impact Investing Strategies

The most important components of understanding how to replicate an impact investing program are as follows:

- What source of funds are they using?
- How do they find deals?
- How do they staff the due diligence work?
- What is the relationship between grantmaking and investing?

Denver Foundation

Source of funds: The Denver Foundation raises funds from their donors for their impact investments. They offer their donors a number of investment options, including an socially screened pool, a local impact pool, and individualized impact investing assistance. The local impact pool requires that the money be held for a minimum of 7 years before being released to the DAF for grantmaking. Donors can also make permanent gifts to the loan pool. They also invested their own discretionary funds into Denver’s social impact bond for permanent supportive housing, since it was a much riskier investment.

Source of deals: The Denver Foundation works with a number of financial intermediaries to find deals, including Ours to Own and other CDFIs. They have made a total of six direct investments so far. They also worked with the Impact Finance Center to create Colorado Impact Days, a conference that brought together funders and prospective borrowers into a single marketplace.

Due Diligence Staffing: Decisions are made by the Impact Investing Committee of the Board, with staff preparation by the Philanthropic Services department. The investments are charitable in nature in that they are made first and foremost with the goal of creating a strong social impact on the community, so financial return is not a strong concern.

Relationship between grantmaking and investing: The Denver Foundation will only make an investment that is related to one of their Community Objective areas. They consider impact investing to be an extension of their grantmaking.

Greater Cincinnati

Source of funds: The Greater Cincinnati Foundation has allocated $10 million from their unrestricted endowment assets to impact investing. They match these dollars 1:1 with co-investments from donors. Each donor invests at least $10-$15,000. Funds are illiquid for 5-7 years until loan maturity. GCF takes 1% as an administrative fee.

Source of deals: While they started out by working with an intermediary, there were not enough CDFIs in their geographic area for their investment appetite. They now source deals directly in addition to using intermediaries. Direct investments are only to established organizations that have experience with loans. They target organizations that fit those parameters and asked them to identify areas for investment.

Staffing: Foundation staff identify investment opportunities. Volunteer advisors who regularly screen grants assess community benefits. Then, consultants conduct a high level review of the potential for financial return. The Foundation uses Imprint Capital Advisors, with whom they had a pre-existing governance relationship. They noted that due diligence gets more expensive the stronger it is, and that it is important to strike a balance since these are meant to be philanthropic investments. Lastly, GCF offers the co-investment opportunity to its donors, who participate in the second round of due diligence. Impact investments made from a DAF where the donor relationship is a factor require even more risk mitigation to ensure a positive donor experience. GCF offers ongoing donor engagement including site visits and an investor breakfast.

Relationship between grantmaking and investing: GCF's investments generate a 2% charitable return. Their strategy is to maximize social return, minimize risk, and preserve capital. They don't target particular industries or types of loans, partly due to the dispersed nature of their market. They target especially donors who do not actively use their DAF with the idea that they would be open to locking up the money for longer periods.

New Hampshire Charitable Foundation

Source of funds: NHCF has been doing impact investing since the 1970's through its creation of the New Hampshire Community Loan Fund, a CDFI. They were also a founding partner in the Granite Fund, a venture capital fund focused on New England startup businesses. The Foundation, the Endowment for Health and the State of New Hampshire all have invested in The Granite Fund, which is supported by a first-loss guarantee provided by the Business Finance Authority. Both investments were made using the foundation's discretionary grantmaking dollars. In addition, they now have an Impact Investing Pool for their donors, which uses the endowment rather than grantmaking dollars. Funds are held for five years, 10 years, or can be permanent gifts to the loan funds. The goal is to diversify enough to eventually have a return equal to their charitable disbursement rate of 4.2%. They apply their regular administrative fee to impact funds.

Source of deals: Essentially, the Foundation creates its own intermediaries which solicit deals. The New Hampshire Community Loan Fund has made more than $6 million in loans over the past 40 years.

Staffing: The Foundation's Impact Investment Committee — consisting of Foundation directors and staff, Investment Committee members and industry experts — will analyze and evaluate potential investments based on three main criteria: social impact, geographic region and financial return. While some investments may have a broader geographic reach, all will benefit New Hampshire.

Relationship between grantmaking and investing: The program uses a portion of the Foundation's invested capital (endowment) for these investments – not grant dollars. The impact investment program in its current form is new, but the Foundation has a long history as an impact investor – having made more than $6 million in loans to nonprofits since the early 1970s.

Vermont Community Foundation

Source of funds: VCF has designated 5% of their endowment for "Vermont investments." It has been very popular with donors.

Source of deals: VCF started sourcing deals through intermediaries but now solicits debt and private equity opportunities from their grantees.

Staffing: They have partnered with other local private foundations to share due diligence costs

Relationship between grantmaking and investing: Investments must benefit Vermont, and must have a market-rate return because they are using their endowment.

Austin Community Foundation

Source of funds: While not specifically stated, I assume it's from the endowment because they talk about putting a greater proportion of their assets to work.

Source of deals: They solicit LOIs directly on their website

Staffing: Unclear whether due diligence is performed in-house.

Relationship between grantmaking and investing: They will consider making loans or equity investments to nonprofits and social enterprise companies working in Central Texas that offer a unique or innovative solution to a local need in one of their Community Impact Areas

Cleveland Foundation

Source of funds: The Cleveland Foundation made $3 million cash deposit as a credit enhancement for the Living Cities Catalyst Fund investments, which leveraged $15 million. It is a 7 year, 0% interest term. Baltimore is also a Living Cities site.

Source of deals: The Living Cities Catalyst fund solicits deals. Their mission is to harness the power of anchor institutions to drive regional economic inclusion strategies. The fund offers three-year grants, ten-year PRIs, and intermediate commercial debt. Funding includes requirements to buy local, hire local, live local, and connect residents.

Staffing: All staffing is through Living Cities.

Relationship between grantmaking and investing: None.

Community Foundation of Greater Atlanta Nonprofit Loan Fund

Source of funds: $320,000 from Foundation's endowment, $80,000 in loan guarantees provided by two donors. $50,000 annual budget provided by local banks. The interest rate is prime plus 2%, making this endeavor hopefully self-sustaining.

Source of deals: The goal of this program is to strengthen Atlanta-area nonprofits by expanding their access to capital for revenue-generating programs. They recruit directly through their website and through their banking partners – the nonprofit must have been turned down for a bank loan. To date they have done two loans and facilitated bank loans to five more nonprofits through loan guarantees.

Staffing: Advisory board of bankers and nonprofit leaders. Staffed by former banker and lending trainer

Relationship between investing and grantmaking: Supporting nonprofit capacity is one of CFGA's grantmaking areas as well.