

Baltimore Community Foundation Impact Investment Policy Statement

BALTIMORE COMMUNITY FOUNDATION

IMPACT INVESTMENT POLICY STATEMENT

Background

The Baltimore Community Foundation ("BCF") is a community foundation created by and for the people of Greater Baltimore. It was established in 1972 to inspire donors to achieve their charitable goals from generation to generation and to improve the quality of life in the Baltimore region through grantmaking, enlightened civic leadership and strategic investments.

This Impact Investing Policy Statement ("Statement") is issued by BCF Board of Trustees ("Board") for the guidance of the Impact Investment Sub-Committee ("Sub-Committee"), BCF staff and consultants, while implementing BCF's impact investing program ("Program"). The Board may amend this Statement both upon their own initiative and upon consideration of the advice and recommendations of the Sub-Committee, investment managers and BCF staff. It is the policy of the Sub-Committee to review these goals and objectives at least once per year and to seek the Board's approval for any changes.

In 2017, BCF Board of Trustees approved an impact investing program which serves to further the mission of BCF by making investments that provide a financial return, benefit our geographical service area, and create a positive community impact to further our mission and strategic direction.

Principles

The Program is managed according to the following principles:

1. BCF may deploy the greater of \$4,000,000 or 4% of the total of the BCF Pool from the BCF fixed income asset class of the BCF long-term investment pool to seed the Baltimore Impact Pool ("BIP"). The percentage of the BCF Pool deployed into the BIP may vary from 0% to 6% of the total BCF Pool. The BIP assets will be invested in the Vanguard Bond Market Index Funds until the Impact Investment Sub-Committee, with the approval of the Investment Committee, deploys those assets to an impact investment. The BIP net earnings (interest less expenses) will be allocated monthly to the BCF long-term market investment ¹pool and any Funds based upon the shares held in the BIP. ¹

¹ Investments and divestments will be made at an NAV of \$1, net earnings will be distributed monthly based upon shares held at the end of the month.

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2. The investment policy statement of the BIP will govern the BIP investment strategy and is not meant to integrate with the investment policy statement that governs the BCF long-term invested pool.
3. The Program will seek investments that further BCF's vision of creating a growing economy where everyone has the opportunity to thrive.
 - a. Investments must primarily benefit Baltimore City and/or Baltimore County.
 - b. The Program will invest the BIP's assets to produce a financial return and to provide social and economic benefits to the region's economy and its citizens (the "impact return"). Impact will be measured with specific impact metrics identified for partner institutions or individual investments.
 - c. BCF will seek to make investments that advance racial equity and encourages the collection of relevant data.
 - d. Investments that support BCF's discretionary grantmaking will be prioritized.

Roles and Responsibilities

Board of Trustees: The Board of Trustees, upon recommendation of the Committee on Trustees and Governance, shall appoint members of the Impact Investment Sub-Committee and the Chair of the Sub-Committee, allocate Foundation-controlled assets to the BIP, adopt the Impact Investment Policy Statement and approve changes to the Impact Investment Policy Statement.

Investment Committee: The Investment Committee will review and approve the impact investments based upon recommendations from the Sub-Committee and review performance reports.

Impact Investment Sub-Committee: The Sub-Committee shall recommend and implement the Impact Investment Policy Statement, set asset allocation, select consultants, monitor the overall liquidity of the investments with respect to BCF's needs and provide overall direction to the administrative staff in the execution of the investment policy. The Sub-Committee is responsible for evaluating and recommending impact investments to the Investment Committee. The Impact Sub-committee will submit investment recommendations to the Investment Committee for final approval. The Sub-Committee shall include no fewer than five members appointed by the Committee on Trustees and Governance.

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Consultants: Consultants may, at the discretion of the Sub-Committee, assist the Sub-Committee in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long term asset allocation and the appropriate mix of investment styles and strategies. Consultants may also assist in investment due diligence and selection, and in investment performance calculation, evaluation, and analysis. The consultant shall provide timely information, written and/or oral, on investment strategies, investments, investment managers and other related issues, as requested by the Sub-Committee.

The above roles and responsibilities are described in the appended decision-making guidelines (Appendix A).

Program Guidelines

Return: The aggregate target average annualized return for the BIP should be within the range of the US T-bill rate plus 1-2% over a full market cycle. This annualized return rate may fluctuate over time based on market conditions.

BCF hopes that in making decisions about individual impact investments the Sub-Committee will take into account both the expected financial return and the expected impact of the investment, as described above in the Principles section of this document.

The target return stated in this section is before the deduction of any consulting and reporting fees.

Performance Measurement: The Program shall be evaluated over the long-term, with a minimum 7-year time horizon (we expect this will be the average maturity cycle for the loans/notes underlying the investments deployed).

The Sub-Committee will determine performance benchmarks once the volume and risk return profile of various investments is better understood. BCF hopes the benchmarks will assess both the financial return and the impact return objectives of the Program. BCF expects the Program's activities will evolve as the Sub-Committee gains an improved understanding of how to manage the BIP to the dual objectives of producing both a financial return and an impact return. BCF also expects the nature of some of the investments made by the Program may require several years to bear fruit. BCF is therefore prepared to be patient both in measuring results and in allowing the Sub-Committee adequate time to establish performance benchmarks.

Risk: The Program includes investments that are illiquid and not traded on public markets. The Program manages risk through comprehensive due diligence investigations, partnering with experienced investors and intermediaries, diversification across asset classes, time diversification and geographic diversification to

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the extent possible while remaining focused on Baltimore City and/or Baltimore County.

With the exception of private, illiquid investments, BCF recommends that no single investment will have an expected maturity or life span of more than 10 years. However, the Sub-Committee may use its discretion to on a case-by-case basis to make longer term investments.

Spending Policy: The spending rate is defined in the Combined Investment Policy and Addendum revised September 14, 2016.

Asset Allocation: The Program may not be able to fully diversify across all asset classes because the allocation is driven by the underlying investment opportunities and the timing of investment opportunities. No single investment shall comprise greater than 20% of the Fund's total available assets.

Investment Criteria: In addition to the investment criteria outlined above, the following criteria apply:

1. Investments through or in partnership with “partner institutions” (also referred to as ‘intermediaries’) are generally preferred, but the Program has the flexibility to make direct investments, where the Sub-Committee considers it appropriate to do so.
2. Entities receiving investments from the Fund may be either nonprofit or for-profit entities.
 - a. In all cases the receiving entity must have a readily identifiable source of income or asset base for repaying the Fund's investment. The identifiable sources of repayment may include rental income, income from business activities (either from the sale of services, products or other assets), repayment from loans or equity investments made by the investee (e.g., in the case of impact investments to lending institutions or other financial intermediaries), or royalties received by the applicant from licensing intellectual property or other assets.
 - b. The Program prefers to invest in entities with a prior track record of repaying invested capital, and/or entities led by a management team with such experience.
 - c. Repayment schedules will be negotiated on a case-by-case basis based on the borrower's anticipated sources of repayments.

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- d. When the Fund considers equity or equity-like investments, an appropriate exit strategy should be part of the investment proposal.
3. BCF's legal counsel will review documents if the Sub-Committee deems it necessary and appropriate.

Monitoring & Evaluation: Investment results will be reviewed quarterly with a deeper annual evaluation relative to the initial financial projections, operating metrics, impact measurements, and compliance with covenants, where applicable. BCF's finance staff will maintain detailed financial records on all investments and will produce financial status reports on an annual basis for the Sub-Committee and participating funds, as applicable.

In the case of delinquent payments or investment losses, BCF will promptly notify the Sub-Committee of any potential impairment and appropriate responses. Any changes in loan terms or conditions must be reviewed and approved by the Sub-Committee.

Staff will identify and recommend for Sub-Committee approval appropriate community-impact metrics for investments within the Program (depending on the nature and scope of each individual investment vehicle), as well as a summary 'dashboard' for the Program in general. BCF staff will maintain community-impact data and will review and update the Program dashboard on an annual basis for the Sub-Committee, participating funds/donors, the Board, and others, as applicable.

Investment Process

1. Financial Return Criteria: Potential investments must meet the return and risk characteristics consistent with the objectives of the Program.
2. Impact Criteria Eligibility: The Sub-Committee is responsible for evaluating prospective investees' social, geographical and financial impact and fit with the Program's goals and objectives.
3. Preliminary Memo: If the proposed investment appears to meet the Program's social impact criteria, prospective investees must submit materials, including purpose of investment, use of proceeds, proposed term and rate, repayment source, etc. The proposed terms of the transaction will be negotiated at that point. This information is incorporated into a Preliminary Review Memo prepared by BCF staff (or an outside consultant/advisor) outlining the investment opportunity.
4. Initial Review: The Sub-Committee reviews the Preliminary Review Memo. Based on a discussion of the relative merits and weaknesses, and whether the impact, geographic and return objectives can be met, the Sub-Committee determines whether to undertake

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full due diligence. If the Sub-Committee does not view the opportunity as viable, it will reject the investment at this stage.

5. Due Diligence: Depending on the situation, the due diligence process may include a site visit; in-person meeting and/or conference calls with the investee's management, borrowers, other investors, board members, and if relevant, industry or sector experts and practitioners; review of audited and interim financial statements, annual reports, and business plans; and racial-equity impact analysis. The due diligence process may also include legal due diligence on whether the potential investee has violated any significant legal or regulatory obligations. For investments in partner institutions, due diligence would include a review of loss reserves, loss experience, delinquencies, investment committee process and membership, underwriting guidelines and other factors. The Sub-Committee shall provide guidance on whether the due diligence should be conducted internally or by an external consultant-advisor.
6. Investment Memorandum: If the due diligence process reveals that the opportunity warrants an investment recommendation, an Investment Memorandum is prepared for the Sub-Committee. The Investment Memorandum will: a) describe the opportunity and how it meets the Program's criteria; b) summarize the salient findings from the due diligence process; c) outline the key risks and mitigants, d) describe whether and how BCF's investment would leverage other sources of capital, and e) outline a preliminary term sheet.
7. Approval: The Investment Memorandum is the basis for discussion and approval, upon a majority vote of Investment Committee.
8. Closing: If approved by the Investment Committee, BCF staff will close on the transaction with the investee.
9. Reporting: Investees are generally required to submit quarterly financial statements, annual audited financials, and any other information or metrics agreed to in advance.

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Appendix A

Impact Investment Decision Making Guidelines

Decision/ Issue	Consultants/ Financial Advisors	Impact Investment Sub- Committee	Investment Committee	BCF Staff	BCF CEO	BCF Board
Impact Investment Policy Statement		Recommend	Recommend	Implement	Be informed	Decide
Spending Rate Decision		Recommend	Recommend	Recommend/ Implement	Be consulted	Decide
Sub-Committee Membership	Be informed	Recommend	Recommend	Implement	Be consulted	Decide
Sub-Committee Chair	Be informed	Be informed	Recommend	Recommend	Recommend	Decide
Allocation of BCF controlled funds to Baltimore Impact Pool		Be informed	Recommend	Recommend/ Implement	Be informed	Decide
Asset Allocation	Recommend	Recommend	Decide	Implement	Be informed	Be informed
Risk Assessment	Recommend	Recommend	Decide	Implement	Be informed	Be consulted
Investment Due Diligence	Recommend	Recommend	Decide	Advise	Be informed	
Consultant hire/review/termination	Be informed	Decide	Be consulted	Implement	Be consulted	Be informed
Investment due diligence for BCF audit	Be informed	Be informed	Be informed	Decide	Be informed	