

# Impact Investing in Social Enterprise



## How To Windows

- Deal Level
  - Regulatory Framework
  - Asset Classes
  - Risk Return Profiles
  - Size
  - Alignment & Leverage
  - Feasibility & Fit:  
Investment & Social Thesis
- Foundation Level

December 6, 2012

The California Endowment

Lisa Richter, GPS Capital Partners

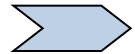
[www.gpscapitalpartners.com](http://www.gpscapitalpartners.com)

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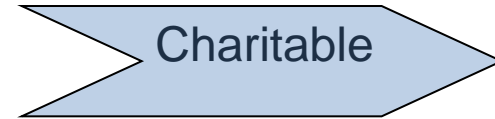
# Tax Exempt & Charitable Purpose



- Religious, **Charitable**, Scientific, Literary, Educational
- To foster national or international amateur sports competition
- For prevention of cruelty to children or animals



**Important: Exempt Purposes may be carried out by entities that are not Tax-Exempt**



- Relief of the Poor and Distressed or of the Underprivileged
- Advancement of Religion, **Education** or Science
- Erection or Maintenance of public buildings, monuments or works
- Lessening the Burdens of Government
- Promotion of Social Welfare
- Lessening Neighborhood Tensions
- Eliminating Prejudice and Discrimination
- Defending Human and Civil Rights Secured by Law
- Combating community deterioration and juvenile delinquency

Source: IRS

# Regulatory Framework for Impact Investments

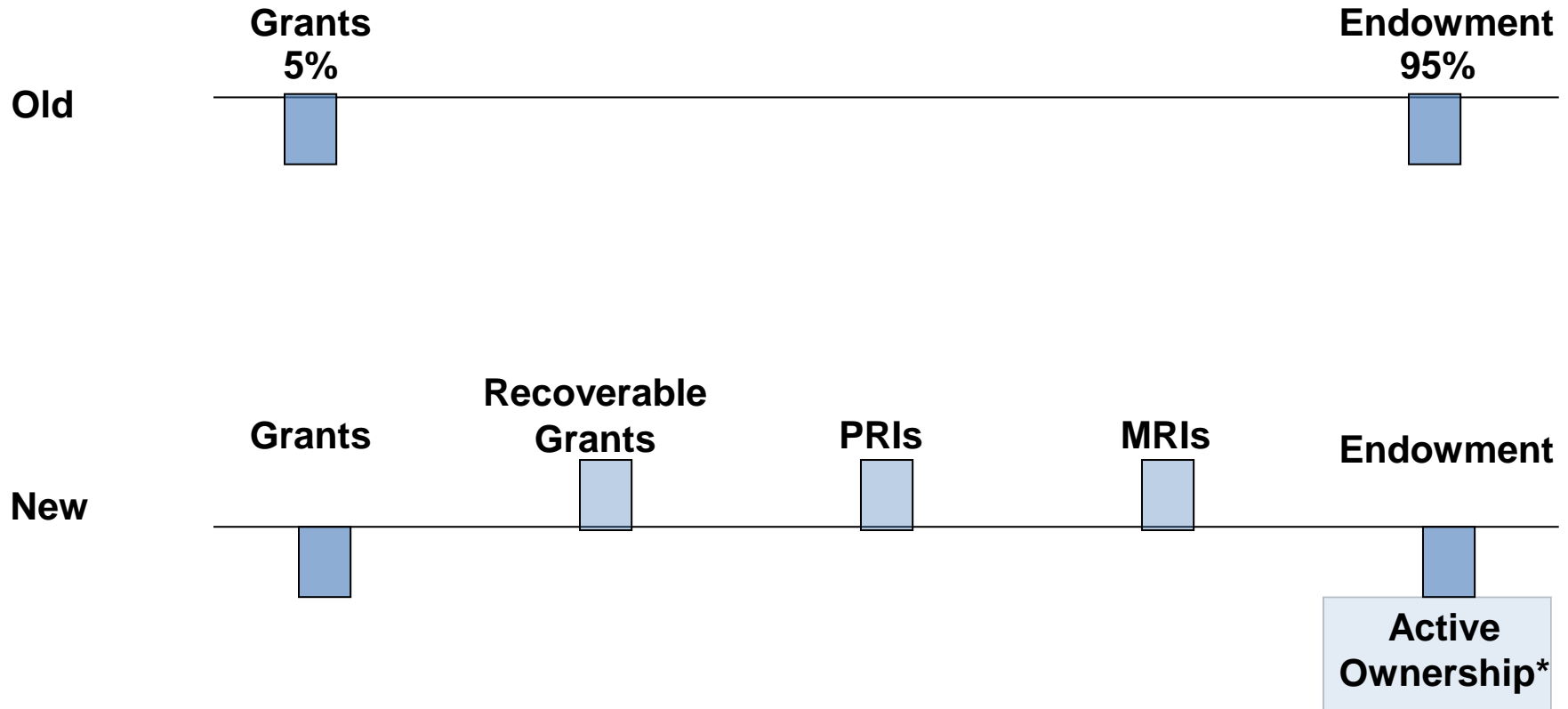
**TABLE 2. PROGRAM-RELATED VERSUS MISSION-RELATED IMPACT INVESTMENTS**

PRI	MRI
<ul style="list-style-type: none"> <li>• A regulatory term</li> <li>• The Tax Code of 1969 defines PRI as a private foundation investment of any asset class in any type of organization for which:               <ol style="list-style-type: none"> <li>1. The primary purpose is to accomplish one or more of the foundation’s charitable, religious, scientific, literary, educational, other exempt purposes.</li> <li>2. No significant purpose is production of income or appreciation of property.</li> <li>3. No purpose is to influence legislation (lobby) or take part in political campaigns on behalf of candidates.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• A term of art whose definition varies</li> <li>• Foundations typically define MRI as an investment of any asset class in any type of organization that has a market-rate expected return on a risk-adjusted basis and that advances a mission.</li> <li>• Often described as double-bottom-line investing (social and financial returns) or triple-bottom-line investing (social, environmental, and financial returns).</li> <li>• Generally refers to investments of the endowment, or “other 95 percent” (excluding the 5 percent of assets given away under the distribution requirement).</li> </ul>

Source: Author and IRS 2010a.

*Note: The IRS defines the term PRI only for private foundations, which also have specific advantages in using PRIs. Community foundations and other impact investors often use the term to refer to charitable investments with a concessionary risk-adjusted expected return.*

# New Philanthropic Investing Continuum

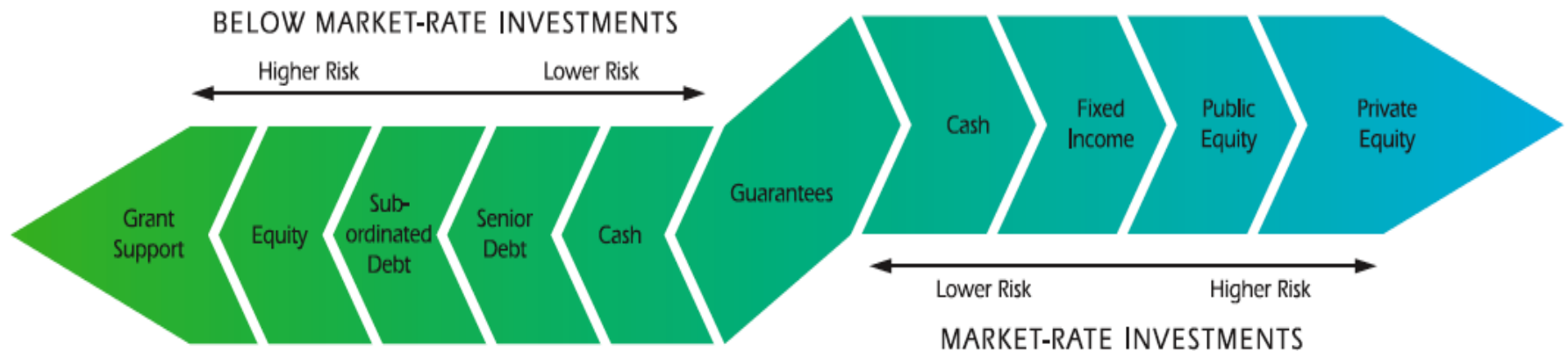


\* Active ownership: Strategies for aligning publicly traded securities with mission and values, such as screening certain stocks in or out, or voting proxies to influence corporate behavior.

# Asset Classes

- Impact investments: *Proactive* financial investments made to generate social and/or environmental benefit and earn a financial return
- Can be any asset class or expected financial return.

## THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING <sup>1</sup>



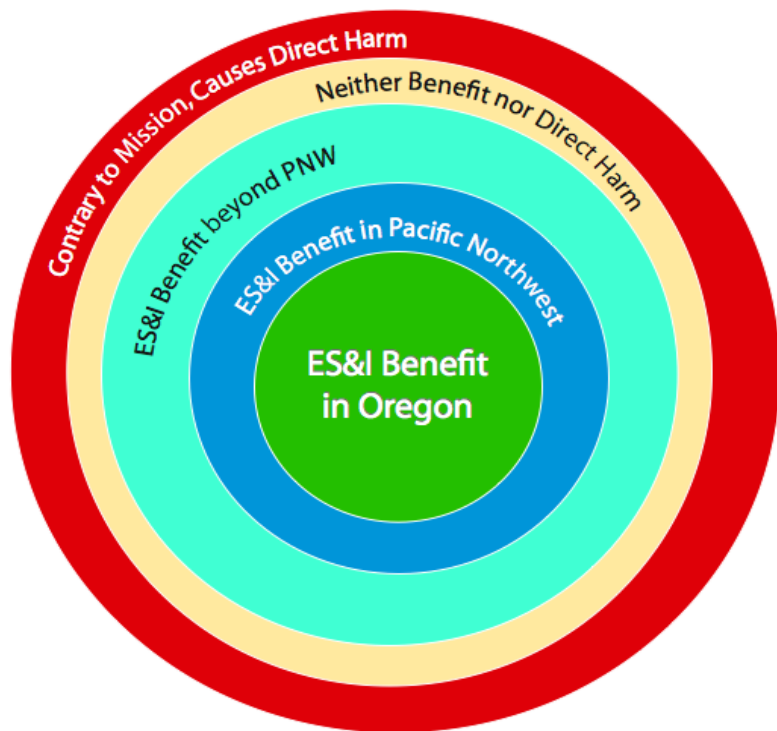
# Scale

PRI Amounts	#	%	\$ (000s)	%
\$10 million +	8	1.1	170,551	23.0
\$5 – \$10 million	18	2.6	104,148	14.0
<b>\$1 – \$5 million</b>	<b>191</b>	<b>27.1</b>	<b>351,126</b>	<b>47.3</b>
\$500,000 – \$1 million	94	13.3	56,228	7.6
<b>\$100,000 – \$500,000</b>	<b>249</b>	<b>35.3</b>	<b>53,525</b>	<b>7.2</b>
\$50,000 – 100,000	66	9.4	4,343	0.6
\$25,000 – \$50,000	44	6.2	1,547	0.2
\$10,000 – \$25,000	35	5	584	0.1
Total	646	100	742,051	100

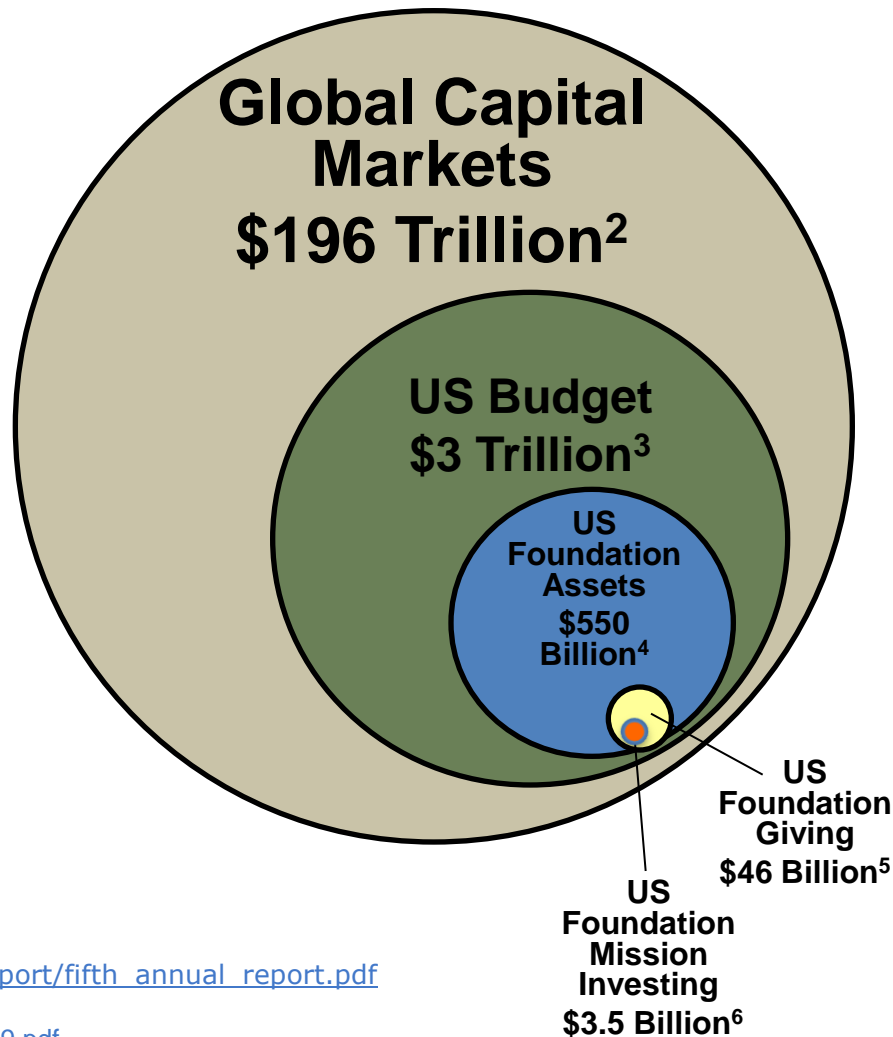
Source: The Foundation Center, *The PRI Directory*, 2009. Based on PRI transactions of \$10,000 or more. Due to rounding, figures may not add to 100 percent.

# Alignment & Leverage

**MMT's Mission-Related Market Rate  
Investment Strategy**  
"Maximizing Impact"

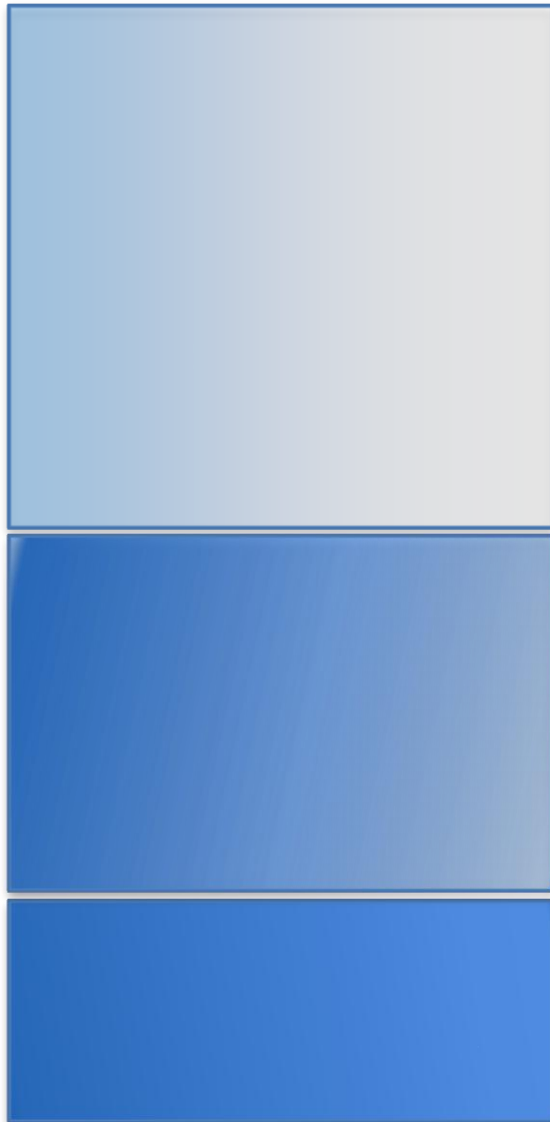


E = Environmental S = Social I = Economic Impact



- 1 Source: Meyer Memorial Trust
- 2 Source: [www.mckinsey.com/mgi/reports/pdfs/fifth annual report/fifth annual report.pdf](http://www.mckinsey.com/mgi/reports/pdfs/fifth_annual_report/fifth_annual_report.pdf)
- 3 Source: [www.gpoaccess.gov/usbudget/](http://www.gpoaccess.gov/usbudget/)
- 4, 5 Source: [www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf](http://www.foundationcenter.org/gainknowledge/research/pdf/fgge09.pdf)
- 6 Source: [Estimate, GPS Capital Partners, LLC](#)

# Leverage - “Capital Stacks”



## **Senior tranche**

-- MRI + conventional investors


## **Subordinated or “junior” tranche**

-- often PRI

## **First loss tranche**

-- often grants

# Feasibility: Investment Thesis



## Repayment Capacity

To grant or to invest, that is the question. PRI/MRI benefits--particularly recycling--require repayment, hopefully with return. Many great ideas need grant support--alone or in combination with impact investments.



## Revenue Stream or Take-Out

**Investment Thesis:** Does organization or project have sustainable revenue stream and/or other refinancing or “take-out?”  
Secondary repayment source?



## Management Systems

Does organization or project have the resources to manage and repay the investment—adequate Capital, Assets, Management, Earnings, Liquidity (CAMEL)?  
Business plan?

# Fit: Social Thesis

- Triage seeks sound social + investment thesis:
  - Social thesis:
    - ✓ Fit: Drives or reinforces impact for foundation's mission and programs?
    - ✓ Strategic opportunity: proof of concept or scaling for high impact project or organization?
    - ✓ Other TBD (i.e., innovation, partnerships, leverage, etc.)
  - Investment thesis:
    - ✓ Repayment source - Recurring revenue, refinancing, reliable contributions, sale or Initial Public Offering of business, real estate appreciation?
    - ✓ Organizational Capacity:
      - CAMELS: Capital, Assets, **Management**, Earnings, Liquidity, Sensitivity
      - Business Plan

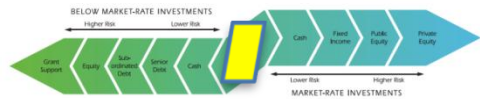
# Social + Financial Thesis



**PLAYWORKS**

EDUCATION ENERGIZED

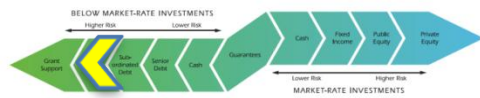
THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING



- **Social Thesis:** Safe play in low-income public schools
- **Investment Thesis:** School districts purchase service, providing revenue. Asset class: Loan Guarantee.
- **Impact:** 170 urban schools in 10 US cities; daily play & physical activity to > 70,000 students
- **Change in BMI? TBD.**
- **Leverage?**

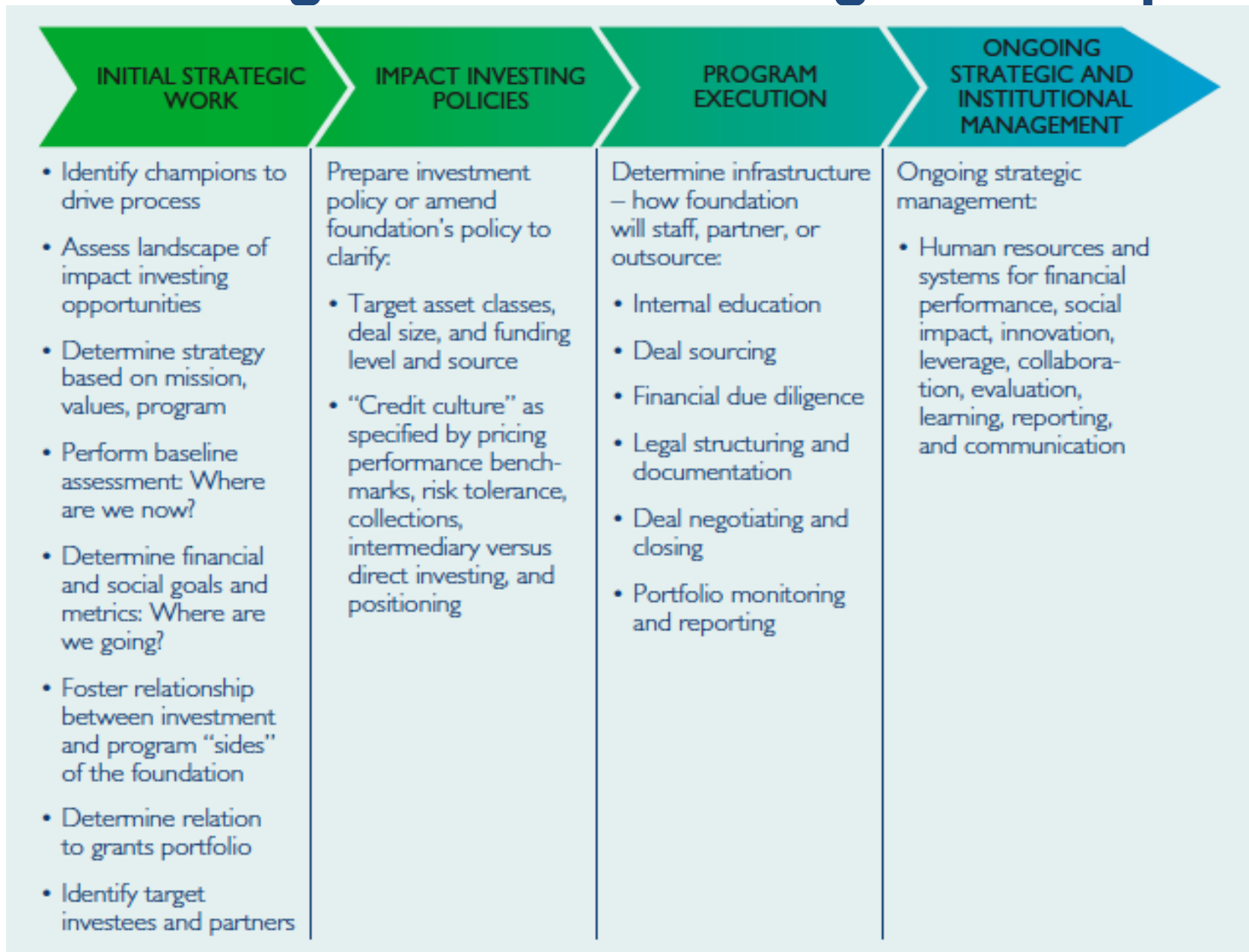


THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING



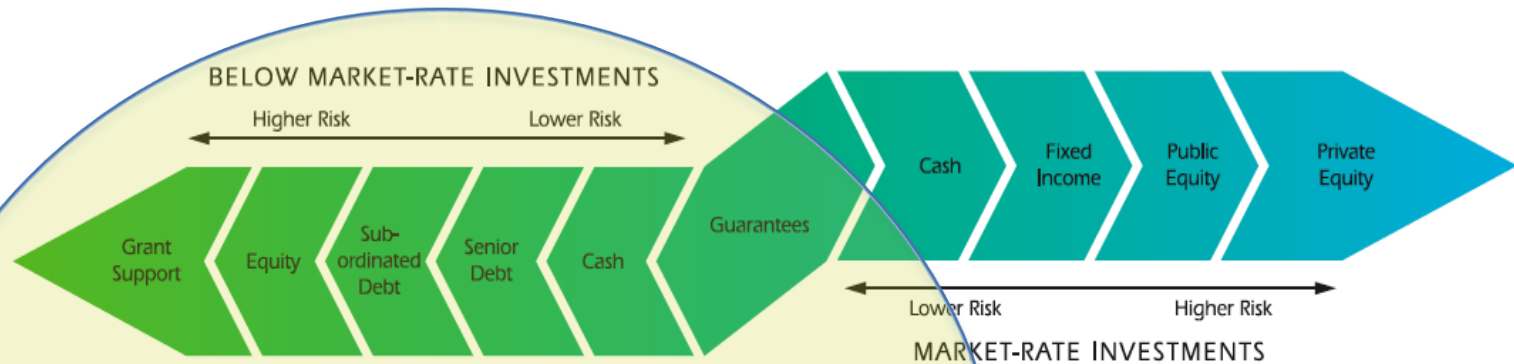
- **Social Thesis:** Increase access to healthy food and nutrition education, especially for low-income students.
- **Investment Thesis:** School districts purchase service. Asset class: Equity investment in for-profit company.
- **Impact:** Founded 2005, Oakland, CA; 350 employees; triple bottom line; over 15 million healthy meals served since inception, 60,000 meals per day
- **Leverage: \$30 million in equity capital; PRI→MRI**
- **Change in BMI? TBD.**

# Getting Started: Planning Roadmap



# Getting Started: Sourcing Impact Investments

THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING <sup>1</sup>



Priority	Grant	Equity	Debt (Sub / Sr.)	Deposits	Guarantees
Health Care					
Health Coverage					
Healthy Community					

Foundations often make grants and PRIs to the same organization, and some make PRIs primarily to current or past grantees. Some make PRIs instead of grants for certain situations.

# Getting Started: Sourcing Impact Investments

1

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



<sup>1</sup> Source: F.B. Heron Foundation. Some example investments have been structured as PRI or MRI, and some firms have raised both equity and debt.

# Getting Started: Resources

- **Organizations with Mission / Impact Investing Focus**

*Impact Investing Associations and Agencies:*

[www.moreformission.org](http://www.moreformission.org)  
[www.primakers.net](http://www.primakers.net)  
[www.globalimpactinvestingnetwork.org](http://www.globalimpactinvestingnetwork.org)  
[www.socialinvest.org](http://www.socialinvest.org)  
[www.communityinvest.org](http://www.communityinvest.org)  
<http://www.iccr.org>  
[www.cdfifund.gov](http://www.cdfifund.gov)

*Example Intermediaries:*

<http://www.caplinc.org/>  
<http://www.liifund.org>  
[www.ncbcapitalimpact.org](http://www.ncbcapitalimpact.org)  
[www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org)  
[www.trfund.com](http://www.trfund.com)

- **Foundations with impact investing Programs**

<http://www.calendow.org/Article.aspx?id=4005> (background and presentations from July 1, 2009

Mission Investing Forum: Building Healthy Communities)

[www.aecf.org](http://www.aecf.org)  
[www.calfund.org/receive/program\\_investments.php](http://www.calfund.org/receive/program_investments.php)  
[www.fordfound.org](http://www.fordfound.org)  
[ww.heronfdn.org](http://www.heronfdn.org)  
[www.kresge.org](http://www.kresge.org)  
[www.macfound.org](http://www.macfound.org)  
[www.mmt.org](http://www.mmt.org)  
[www.packard.org](http://www.packard.org)  
[www.rwjf.org](http://www.rwjf.org)  
[www.wkkf.org](http://www.wkkf.org)

- **Other**

<http://www.frbsf.org/cdinvestments/conferences/hc/> (Federal Reserve, San Francisco Fed & Robert Wood Johnson Foundation Healthy Communities Conference, July 2010)

<http://www.gih.org> (Grantmakers In Health Guide to Impact Investing)

<http://www.healthypeople.gov/hp2020/> - Healthy People 2020

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