

MEMORANDUM

To: CFGB Building Capacity Committee

From: Chris Nanni, President

Date: April 5, 2022

Re: Impact Investing

Background:

An ad-hoc Impact Investing Committee made up of CFGB Board members Shegun Otulana, Dave Gray, Jared Weinstein, and Kate Danella has been looking at potential opportunities to further explore impact investing, building on the Foundation's recent program work and on donor interest.

What is Impact Investing?

Impact investing refers to investments "made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return". A Program-Related Investment (PRI) is a type of impact investment made by a foundation with the primary purpose of advancing its exempt mission. It is similar to a grant in that it must meet a specific charitable standard, but is different in its assumption of financial returns (below market rate). A Mission-Related Investment (MRI) are investments that are expected to have market rate returns. MRIs come from investment assets do not have to meet charitable standards, but do have to meet the prudent investment standard. MRIs further a foundation's mission but are not a charitable activity. For more information on impact investing, see [this overview](#) from Rockefeller Philanthropy Advisors.

Why is CFGB interested in Impact Investing?

Foundations and community foundations in particular are beginning to understand the power of their resources to go beyond charity and to invest in place based economies...to use their capital as a tool to drive equitable prosperity. Local Impact Investing is a new tool for philanthropy that cares about place. In addition to utilizing traditional grant making, foundations are beginning to augment their grant making by accessing their endowments in specific ways to move the needle on specific issues. The following are some additional factors to consider:

- We have had donor interest in this area, particularly as it relates to their own donor advised funds (DAFs) doing mission-related investments (MRIs) or program-related investments (PRIs), which represent different types of impact investing.
- By engaging DAFs, it would distinguish us from any other DAF provider which is becoming a crowded field.

- Donors are becoming more interested in a double bottom line - investing charitable dollars with the potential of a return in order to reinvest.
- Impact investing is a nascent but growing vehicle for foundations and a way for foundations to invest specifically in local economies.
- MRIs are a way using a percentage of investments to benefit the local community (whereas right now the investment dollars are invested globally).

Timing and attention for Impact Investing now:

- While this seems like a recent discussion, there is a through line on this topic over the past three years.
- It began with the Foundation's work with Rockefeller Philanthropy Advisors (RPA) in drafting our Catalyst Small Business Impact Grant Program (SBIG) structure back in 2019.
- SBIG was a way for us to take a step forward into the impact investing world. Rather than setting up a revolving fund on our own, we granted out to the CDFIs for them to do this. This can provide us valuable experience and exposure to models that we might be interested in taking the next step with through establishing our own fund (revolving loans, equity investments, convertible loans, etc.)
- Phase two of the Catalyst project was intended to take a deeper look at impact investing. We reserved about \$350K from the Catalyst grant to potentially go towards this. In the spring of 2021, we convened a meeting with Daniel Coleman (Chair of the Investment Committee), Norm Davis and those in the banking field to talk about potential models.
- In spring of 2021, we had Balch and Bingham speak to our Investment Committee about the legality of doing Mission Related Investments (MRIs) and Program Related Investments (PRIs). This was to inform the committee of the legal structure involved in implementing this strategy.
- In August of 2021, we had RPA present to the Investment Committee on examples of foundations structuring MRIs and PRIs.
- In September of 2021, Shegun (who serves on the Investment Committee) was in Indianapolis and was impressed by the work that NEXT Studios was doing with the Central Indiana Community Foundation. This led to the ad-hoc Impact Investing Committee's conversations with [NEXT Studios](#) and [LOCUS Impact Investing](#).

Proposal to work with LOCUS Impact Investing

After meeting with LOCUS Impact Investing, CFGB staff and the Impact Investing Committee felt that a valuable next step would be to engage LOCUS to help explore potential next steps if CFGB does move into impact investing. LOCUS has worked extensively with community foundations and brings expertise around developing impact investing capacity in a community foundation context. We requested that LOCUS submit a proposal (attached).

Recommendation

After reviewing the attached proposal from LOCUS Impact Investing, the Impact Investing Committee recommends to the Building Capacity Committee that we proceed with Phase I as described in the proposal, with LOCUS Impact Investing helping CFGB develop the governance, processes and structure to engage in impact investing more broadly. This recommendation includes **proposed funding from CFGB proactive dollars of \$26,500** for Phase I activities.



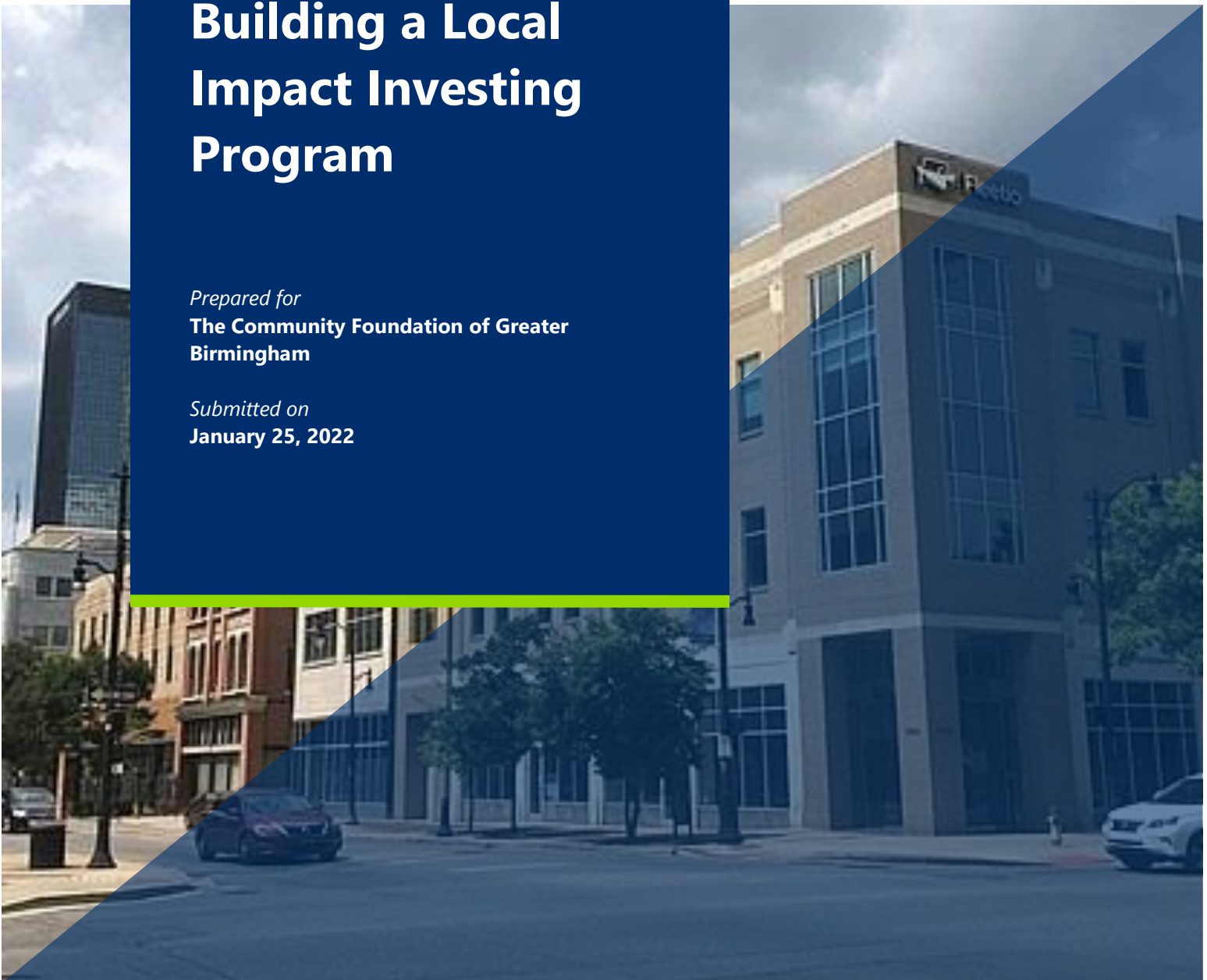
LOCUS
local investing for impact

Customized Scope of Work

Building a Local Impact Investing Program

Prepared for
**The Community Foundation of Greater
Birmingham**

Submitted on
January 25, 2022



Building a Local Impact Investing Program

Prepared for the Community Foundation of Greater Birmingham

A. Introduction

LOCUS Impact Investing (LOCUS) is pleased to present this Scope of Work for discussion with the Community Foundation of Greater Birmingham (CFGB). We believe that the Community Foundation is at the forefront of a growing movement of community-focused and mission-driven organizations rethinking how they use their assets to benefit their communities. As a community leader and endowment steward, the Foundation is well equipped to help communities address critical opportunities and challenges. Some of those will be best addressed through the tool of local impact investing. We believe that embracing local impact investing will better equip your organization to advance your mission of igniting passion for transformational change.

LOCUS Impact Investing believes that foundations can and should be local investors to help cultivate economies that work for all. We have built our practice around this belief and are focused exclusively on local impact investing. This laser focus has informed our deep understanding of what it takes to become an equitable and effective local investor – an understanding that we bring to each partnership.

LOCUS engagements combine deep education with customized coaching support. Working with the LOCUS team, the Foundation's board and staff will understand what local impact investing strategies and tools are available, how they align with the CFGB's mission and goals for impact, and how they can be applied toward more and more investments in your community. We have confidence that our process not only builds understanding of tools necessary to strengthen your local impact investing program, but also reinforces the foundation's community leadership culture and activities.

B. Proposed Scope of Services

We are drawn to working with CFGB because you share our commitment to using capital as a tool to drive equitable prosperity. Based on our recent conversation, we've designed the following scope of work in two phases: (1) Developing the governance, processes, and structure necessary for the Foundation to engage in local impact investing more broadly and (2) Building the capacity needed to successfully source and manage investments. We understand and appreciate that the foundation's recent grant investment into six community development financial institutions has provided CFGB with critical connections and experience that will be valuable as you seek future investment opportunities. In the second phase, LOCUS will help CFGB to further develop its tools and skills for pipeline development and move toward activating your local impact investing program.

LOCUS guides our foundation partners through a set of key decisions on strategy/program design, governance, structure and capacity, and process. This is accomplished using a working group composed of key staff and board members. Through virtual coaching calls, working meetings, and assignments for both the LOCUS team and CFGB working group, the Foundation and LOCUS will engage together to

develop and advance a local impact investing program. The following outlines our likely activities and cost of this proposed scope of work.

Proposed Workplan – Phase 1

Activity	Description
Board Presentation	Conduct virtual presentation to introduce the board to the broad field of impact investing with a specific focus on stories of community foundations doing local impact investing.
Board Survey	Survey Board members to gain their insights on facets of a foundation local impact investing strategy. Conduct selected follow-up interviews, as needed.
Pre-Meeting Exercise	"Describe Your Ideal Local Investment"
WG Meeting 1	Share board survey results. Utilize survey findings and exercise reflections to discuss program goals, mission alignment, and impact measures. Consider implications of source of funds.
Pre-Meeting Exercise	"Would You Invest?"
WG Meeting 2	Identify investment priorities, discuss risk management practices and build an evaluation rubric.
Pre-Meeting Exercise	"Building the Program Plumbing"
WG Meeting 3	Discuss the program systems and staff roles and responsibilities. Identify needed tools and decision-making "gates."
WG Meeting 4	Reflect on tools, make edits and adjustments. Consider program visibility and identify strategies for internal and external stakeholder engagement, including donors.
Staff Coaching Call	1 hour staff only to make line-by-line updates to the Guidelines, Strategy, Policy and Scorecard.
WG Meeting 5	Support the Working Group in developing a presentation for the Board to share program strategy and tools. Outline next steps.
Deliverables	<ol style="list-style-type: none"> 1. Five facilitated Working Group meetings 2. Board Presentation – Impact Investing 101 3. Draft Local Impact Investing Policy 4. Program Guidelines 5. Local Impact Investment Evaluation Rubric
	Cost: \$26,500

Proposed Workplan – Phase 2

Activity	Description
Staff Coaching Call	Facilitate and coach foundation staff on initial sourcing interviews (2-3) with relevant community partners. Prepare staff to conduct additional interviews, as needed, to reach goal of identifying 1-2 potential investments to take through the process designed in Phase 1.
Staff Coaching Call	Provide template and, with staff, workshop/prepare first investment memo.
Board Committee Meeting	Participate in meeting of Foundation’s local impact investing committee and provide guidance on using new tools to evaluate identified potential investment.
Staff Coaching Call	Debrief and conduct a 360-review of the investment presentation and consideration process. Make any amendments to the process.
Deliverables	<ol style="list-style-type: none"> 1. Partner sourcing/screening questionnaire 2. Draft Internal Investment Memo 3. Pipeline spreadsheet 4. One-year Workplan
Cost: \$10,500	

The LOCUS local impact investing strategy building process is an investment in the foundation – and your community – that requires financial resources, time, and commitment on the part of foundation staff and board members. Our work together will set a new strategic direction for the foundation and provide the structure and tools to successfully act on that strategy. An agreed upon final contract amount will be informed by your feedback on this scope of work. Some foundations have covered this cost by using grant funds to support their own organizational development and expanded community leadership. As a nonprofit, LOCUS is familiar with grant and reporting requirements.

C. Organizational Overview and Capabilities

LOCUS is a nonprofit consulting firm and mission-driven registered investment advisor. Through a continuum of consulting and investment advisory services, we strive to form lasting client relationships that can span from education to implementation. We have a robust team of passionate, dedicated individuals with decades of combined experience in capital ecosystems and place-based impact investing. Our team combines the skills of licensed investment professionals, community development finance specialists, philanthropic practitioners, and fund managers. This unique combination of perspectives enriches our ability to fully appreciate our client’s need to balance mission fidelity, community impact, and financial sustainability.

Since our 2017 founding, LOCUS has worked alongside foundations and other mission investors to advance three goals: 1) Grow more impact investors and capital committed to place; 2) Support more effective and equitable local impact investing practices; and 3) Enable more impact capital to be deployed in communities. In only four years, LOCUS has advanced our mission and celebrated many accomplishments including:

- Helping 20 foundations build place-based impact investing programs that are channeling nearly \$70MM dollars back into communities. This work included the development of Investment Policy Statements and Program Operating Guidelines.
- Underwriting 21 investment opportunities for foundations and other mission investors. Investment subjects ranged from community development financial institutions to new markets tax credit transactions to commercial real estate developments to private equity/venture funds. Should CFGB need support in conducting due diligence on future investments, we are happy to share more about our approach.
- Helping foundation and other mission investors develop two collaborative investment funds – [Invest Appalachia](#) and the [Community Investment Guarantee Pool](#) – and one investment “marketplace” – [Opportunity Virginia](#).
- Providing “back-office” servicing support for a diverse portfolio of assets totaling just over \$200MM. Our partners include field-leading impact investors such as The Kresge Foundation, Appalachian Community Capital, Neighborhood Impact Investment Fund.

Local Investment Strategy

- Program Design and Development
- Local Impact Investing Accelerator
- Program Implementation Support
- Workshops and Training

Transaction Services

- Pipeline Development and Structuring
- Due Diligence and Underwriting

Asset Management

- Portfolio Administration
- Asset Servicing

Fund Services

- Fund Design and Development
- Fund Management

D. Staffing

LOCUS takes a team approach to our work with foundations – a Project Lead who manages the process and another LOCUS staff member. These two LOCUS coaches will work with the CFGB Working Group to set agendas, analyze and prepare materials, and provide thoughtful guidance and coaching throughout the engagement. All meetings described in this scope will be conducted virtually.

Thank you for considering LOCUS as a partner for your local impact investing journey. I look forward to discussing this scope so we may best meet your expectations and goals. You can reach me at lisa@locusimpactinvesting.org or 804-977-6436.