



Impact Investing: Leveraging More of Your Assets to Accomplish Mission

Clifton Larson Allen Training Seminar

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Management LLC

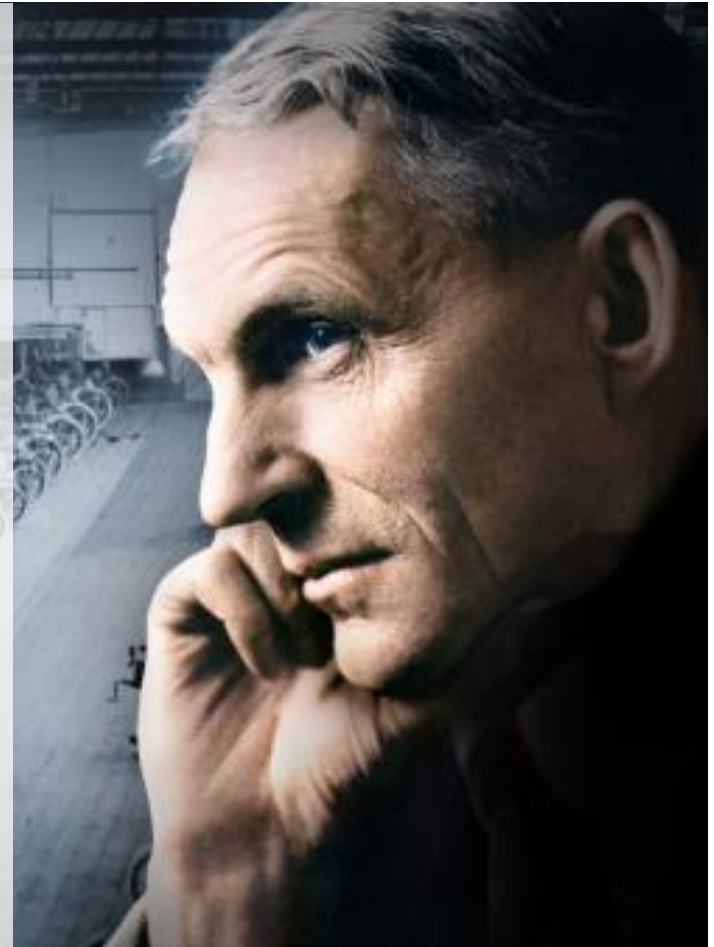
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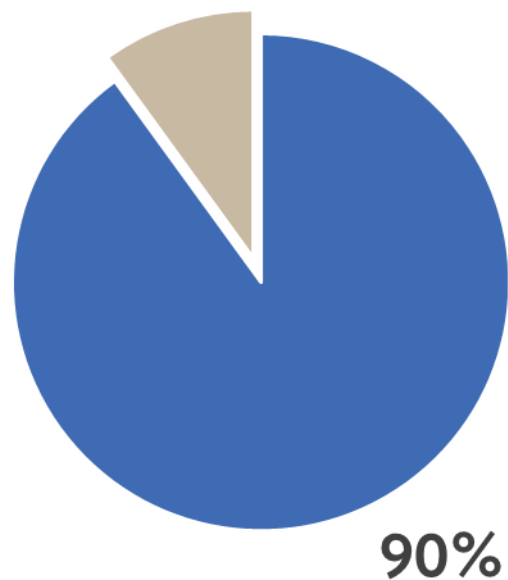
***"The highest use of capital is
not to make more money, but
to make money do more for
the betterment of life."***

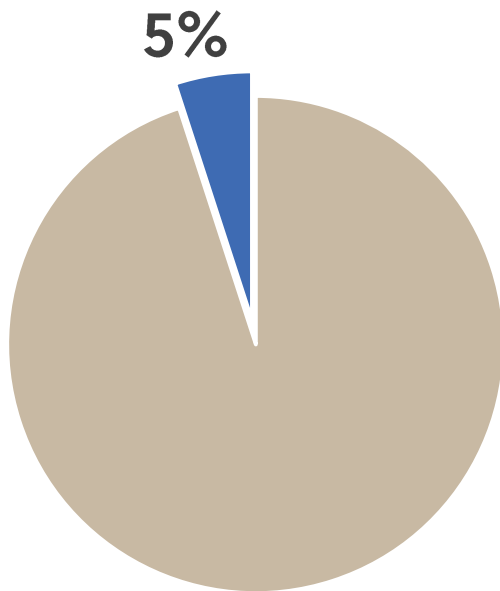
—Henry Ford.





Ninety percent of
nonprofits were
created in the past
60-years





The average foundation uses only 5% of its available funds to impact mission ...

Based on a typical foundation or endowment spending rate.



What does the remaining 95%
do in terms of mission impact?



Nothing!





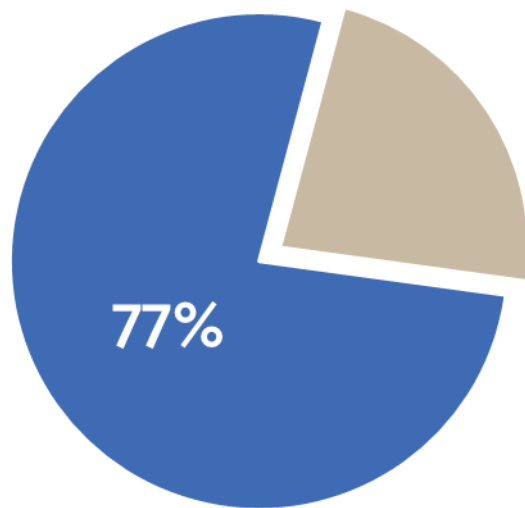
"Should a foundation be more than an investment company that uses some of its excess cash flow for charitable purposes?"

– F.B. Heron Foundation



Spending Policies

- Help preserve intergenerational equity
- Mask the limited immediate impact of a foundation
- Help investment advisors hoard assets (and fees)



Up to 77% of a typical
foundation's investments
may be working against
its mission!

Source: Per MSCI Inc., there are 573 Constituents of MSCI ACWI SRI Index and 2,7470 constituents of MSCI ACWI Index as of September 30, 2016.



Health Foundations Invested in Tobacco Stocks





Faith Based Foundations Invested in "Sin Stocks"





Impact Investing Approaches

- Socially Responsible Investing (SRI)
 - Environmental, Social and Governance (ESG)
- } Baby steps towards Impact
- Mission Related Investing (MRI)
 - Program Related Investing (PRI)
- } True Impact



Related Concepts

- Community Investing
- Ethical Investing
- Green Investing
- Responsible Investing
- Sustainable Investing
- Values-based Investing
- Venture Philanthropy



Impact Investing Defined

- Aligns investments with mission
- Applies to all or any portion of assets

"Investments made into companies, organizations, and funds with the intention to generate measurable social and environmental **impact** alongside a **financial return**."

—the Global Impact Investing Network (GIIN)



Socially Responsible Investing (SRI)

- Considers both financial returns and social good
- Investors filter out sectors/companies they do not wish to invest in ("negative screening")
- May not generate measurable "impact", but helps minimize negative ones



Environmental, Social and Governance (ESG)

- Standards for a company's operations related to sustainability and ethical impact that socially conscious investors use as a screen
- Maybe a negative screen or a positive screen (selecting the companies to invest in)
- It is challenging to measure "impact"



Environmental, Social and Governance (ESG)

Three common areas of concern include:

1. Environmental

- Climate change
- Hazardous waste
- Nuclear energy
- Sustainability

2. Social

- Diversity
- Human Rights
- Consumer Protection
- Sin stocks (alcohol, etc.)
- Consumer protection
- Animal welfare

3. Corporate Governance

- Management structure
- Employee relations
- Executive compensation



So Why Don't Foundations Invest for Impact?

Conventional thinking builds a "wall" between program and investment management:

Investment
office:

maximizes
financial return



Program office:

dispenses
grants for
mission

What if you could achieve both financial returns and much greater mission impact?



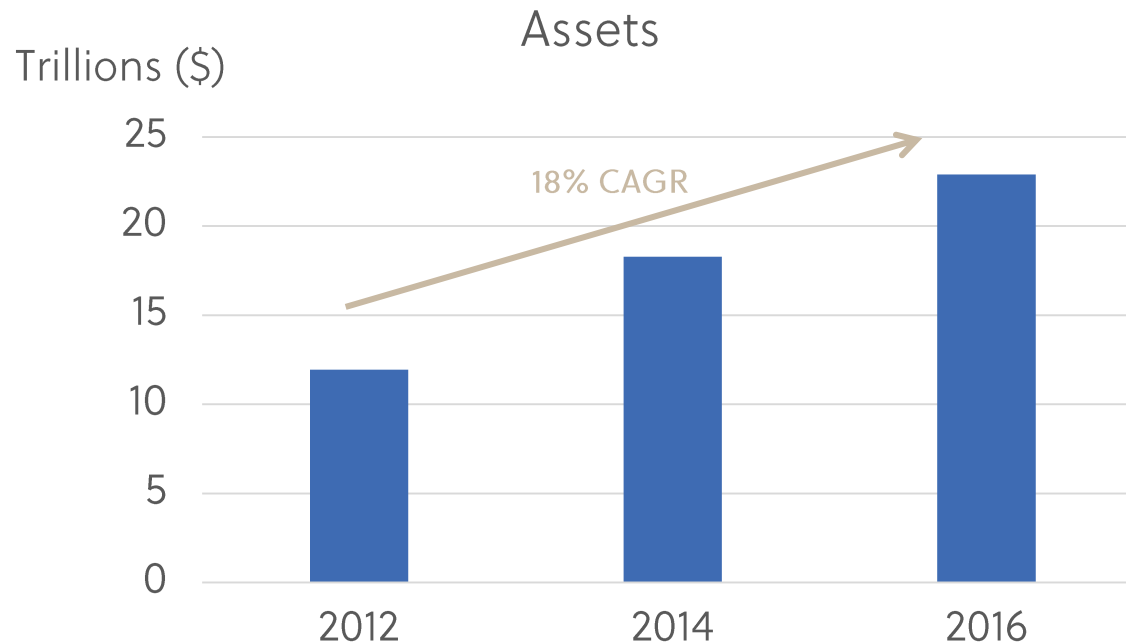
Also, Social Impact Factors Were Deemed to:

- a) Limit the opportunity set of investments
- b) Imply substandard financial returns
- c) Require specialized internal expertise



SRI, ESG and Impact Investments Have Grown Significantly

- Grown to \$23 trillion in 2016



Source: Global Sustainable Investment Review 2016, Global Sustainable Investment Alliance.



The Myth of SRI/ESG Returns

Returns and diversification are not sacrificed by investing in SRI/ESG compared to a broader index

Annualized Gross Returns (%) (April 28, 2017)

Index	1-Yr	3-Yr	5-Yr	Since 9/28/07	Dividend Yield	Beta
ACWI SRI	14.96	6.23	10.09	4.63	2.49	0.98
ACWI	15.30	6.27	10.56	4.21	2.41	1.00

Source: MSCI SRI (USD), MSCI Inc., 4/28/2017.



Program Related Investing (PRI)

- Direct investment by a foundation to support a charitable activity
- Usually structured as a loan, a loan guarantee or an equity investment
- Like a recyclable grant, repayment must be recycled for another charitable purpose
- Counts as part of grant budget (5% IRS rule)



IRS Guidelines on PRI

- The IRS defines a PRI as any investment by a foundation that meets the following three tests:
 1. Primary purpose to further some aspect of the foundation's charitable mission;
 2. Structured to produce "below market returns" on a risk-adjusted basis;
 3. May not be used to support any lobbying



Mission Related Investing (MRI)

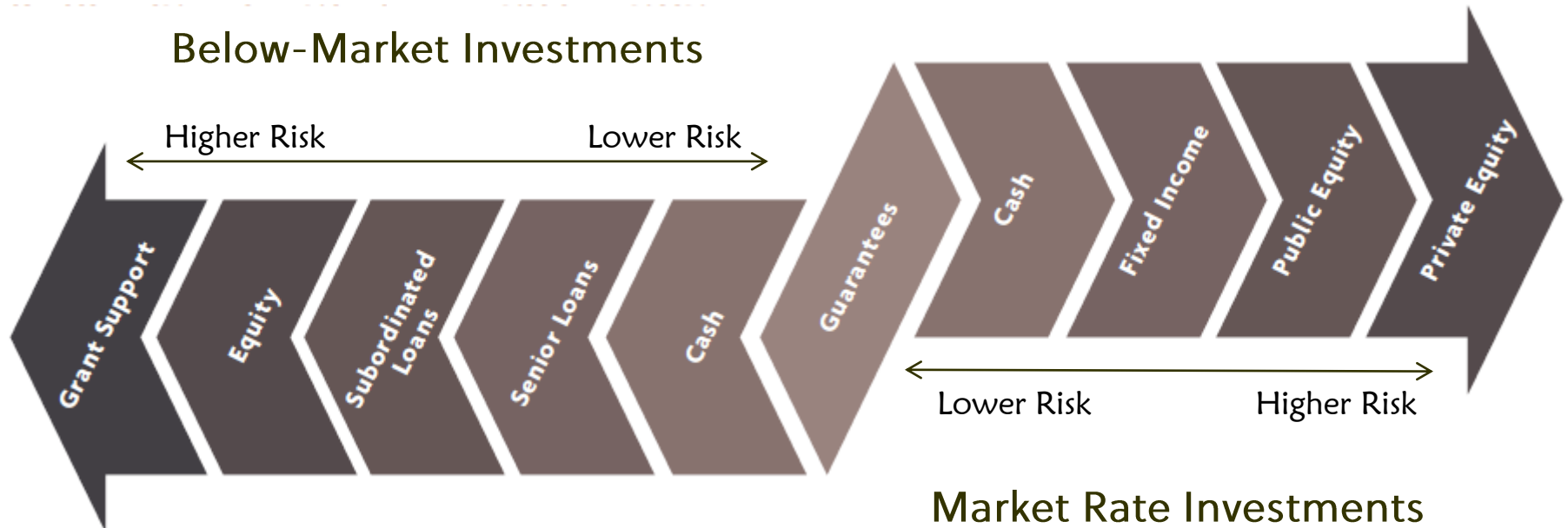
- Same as PRI, except:
 - Outside the grant budget
 - Produces market rate returns



Continuum of Mission Related Investing

PRI

Below-Market Investments



MRI

Source: F.B. Heron Foundation



Implementation Considerations

- Are all asset classes available?
- Do we carve out a specific portion of the portfolio?
- Do we try to implement some sort of impact investment expectation in all asset classes across the board?
- Could we add Impact Investing criteria to investment manager searches in all asset classes?
- Could we add impact investments to our Alternative allocation (which may not yet exist)?



Community Development Financial Institutions (CDFI)

- Certified by the US Department of the Treasury
- Mission driven lenders and investors primarily serving low-income
- Capital and development to provide:
 - Affordable housing
 - Job growth and economic revitalization
 - Community services
 - Responsible banking access to underbanked



CDFI Model





Types of Community Development Financial Institutions (CDFIs)

CDFI Type	Banks	Credit Unions	Loan Funds	Venture Capital Funds
Structure	For-profit depository institution	Nonprofit cooperative depository	Nonprofit (some for-profit)	Mostly for-profit
Regulation	FDIC, Fed, OCC, state banking agencies	National Credit Union Admin	Unregulated	Unregulated
Capitalization Structure (sources)	Insured deposits and equity	Insured deposits, secondary capital and equity	Unsecured and secured debt, subordinated debt, and grants	Equity and equity-like debt
Sectors Served	Loans and retail financial services for individual and commercial customers	Loans and retail financial services for individuals/ members	Loans for housing, small business, community facilities, nonprofits, and commercial real estate	Equity and equity-like debt for high-growth businesses with social impact

Source: IFF.



Getting Started – the Basic

- Update IPS with Impact goals/objectives
- Proxy voting and shareholder engagement
- Invest in SRI/ESG funds or screened public companies
- Hold insured, uninsured or linked deposits at community-owned banks and lending institutions
- Green, infrastructure or smart growth bonds
- Offer foundation staff SRI/ESG or green retirement plan options



Getting Started – Intermediate

- Senior and subordinated loans with primarily charitable intent to non-profits and for-profits
- Loans backed by viable assets and cash-flows
- Loans to purchase real estate create sustainability
- Loans to grantees (can be converted to grants)
- Providing guarantees to grantees and for-profits
- Equity investments in screened private companies
- Real estate investments that target mission related objectives



Getting Started – Advanced

- Structuring angel or venture capital investments in early stage companies promising social / environmental as well as financial return



Examples

- Acquiring and developing grocery stores in food deserts
- Acquiring, owning, and managing community-integrated housing for low-income disabled adults
- Redeveloping foreclosed properties near public transit into affordable homes and apartments



Example A: Linked Deposit

- A foundation invests in a certificate of deposit at a CDFI with the funds used to provide loans to local businesses in order to spur economic development and job creation. The bank charges interest to the businesses and pays a lower interest to the foundation, at below-market rates.



Example B: Loans and Loan Guarantees

- Senior/Subordinated Loan: Guarantee a loan from a bank to a nonprofit for purchasing a building at lower interest rate.
- Guarantee low-interest student loans for local youths who otherwise have few education funding options. Using funds as a guarantee to secure a lower rate benefits significantly more students than one-time scholarships.



Example C: Direct Real Estate

- A foundation focused on strengthening the local nonprofit sector purchases a building and rents it out at below-market rates to nonprofit organizations.



Example D: Direct Private Equity

- A foundation focused on environmental protection makes an early-stage direct investment in a private company that is developing technology for cleaner fuel usage.



Example E: Venture Capital Fund

- A community foundation invests in a venture capital fund that provides capital and technical assistance to early-stage businesses in its region.



Lack of Internal Resources or Expertise

- Most foundations are over-paying for underperforming investment advice
- Moving half traditional investments to passive management and carving out a portion for impact investing may free up dollars to hire an internal analyst
- Leverage Board members with business, financial and real estate expertise



Impact Investing Continuum

<div> <div>Broad Scope</div> <div>Narrow Scope</div> </div>	Approach	Pros	Cons
	ESG Integration	<ul style="list-style-type: none"> ▪ Broad investment opportunity set and set of values 	<ul style="list-style-type: none"> ▪ May invest in firms with ESG risks
	ESG Screening	<ul style="list-style-type: none"> ▪ Apply values and customize 	<ul style="list-style-type: none"> ▪ Investment opportunity set is reduced
	Sustainable Thematic	<ul style="list-style-type: none"> ▪ Provides solutions to socioenvironmental ▪ Provides diversification 	<ul style="list-style-type: none"> ▪ Narrower opportunity set
	Impact Investing (Public)	<ul style="list-style-type: none"> ▪ Investments have a socio/ environmental benefit 	<ul style="list-style-type: none"> ▪ Impact may be difficult to measure
	Impact Investing (Private)	<ul style="list-style-type: none"> ▪ Funds are allocated directly to projects 	<ul style="list-style-type: none"> ▪ Actual impact difficult to measure ▪ Financial returns may become secondary
	Philanthropy	<ul style="list-style-type: none"> ▪ Funds directed to specific causes 	<ul style="list-style-type: none"> ▪ Lack of transparency on how funds are used

Source: AB Bernstein.



Information Resources

- Mission Investors Exchange: www.missioninvestors.org
- Confluence Philanthropy: www.confluencephilanthropy.org
- Exponent Philanthropy: www.exponentphilanthropy.org
- Foundation Partnership on Corporate Responsibility
(www.foundationpartnership.org): Shareholder advocacy
- CDFI Data Project (www.cdfi.org/cdfiproj.asp): Collaborative initiative with 517 CDFIs
- U.N. Principles for Responsible Investment (www.unpri.org)



Your Presenter



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- Board Member, Space Coast Health Foundation
- Education: University of California at Berkeley



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Thank You

