Community Foundations and Place-Based Impact Investing

September 2023

COMMUNITY CAPITAL MANAGEMENT

Community Foundations and Place-Based Impact Investing

DAFs are a unique philanthropic tool that allow donors to establish charitable accounts at institutions, such as community foundations, and remain involved in supporting the issues and causes they care about. A DAF allows the donor to remain involved and active in charitable giving by retaining "advisory privileges" to recommend how the sponsoring organization should make grants from that fund. All funds distributed from DAFs must be used for qualified, charitable purposes.[2]

A grant is a quantity of money, i.e., financial assistance, given by a government, organization, or person for a specific purpose.

Introduction

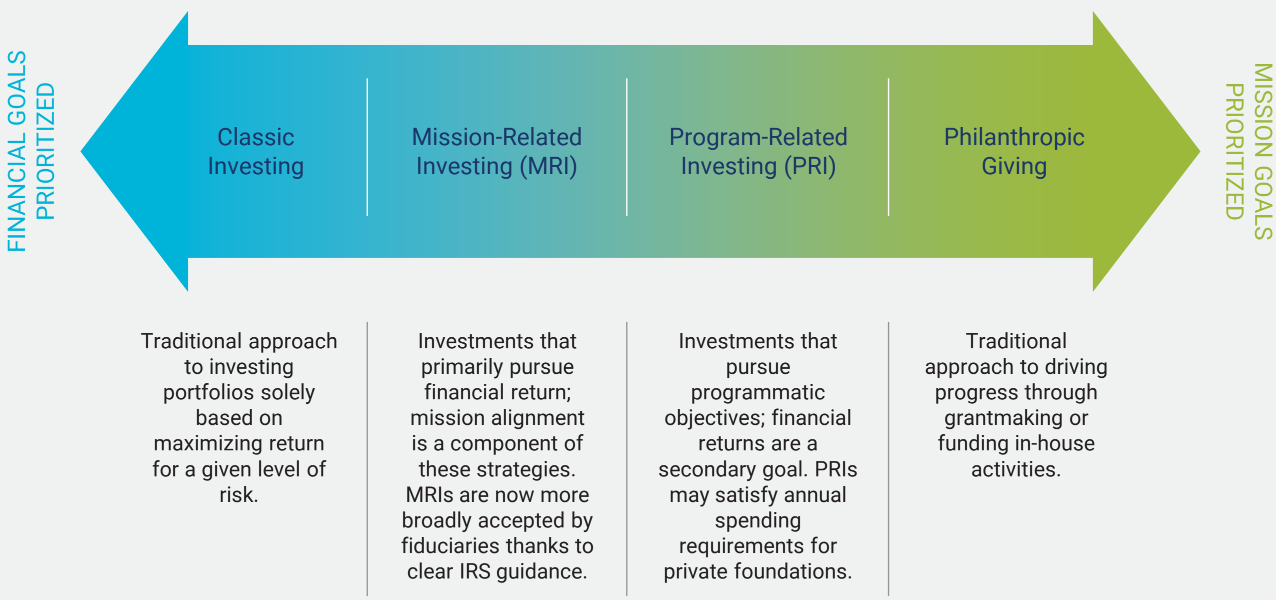
As grantmaking public charities, community foundations dedicate themselves to improving the lives of people in a defined local geographic area. They bring together the financial resources of individuals, families, and businesses to support effective nonprofits in their communities.[1] As community foundations strive to make a positive impact to their local communities, place-based impact investments can be a great way to leverage their endowment and donor-advised fund (DAF) portfolios to align with their missions. Place-based impact investing refers to the local deployment of impact capital to address the needs of targeted communities. Unlike grants, impact investments look to generate positive environmental and societal benefits *and* a financial return.

This report takes a closer look at the options for driving impact for community foundations, the benefits offered to community foundations when they complement traditional grantmaking with place-based impact investing, the lifecycle of place-based impact investments, and case studies of community foundations making place-based impact investments. For the purposes of this report, impact investing and mission-related investing (MRI) are used interchangeably. Place-based impact investing, which is a type of impact investing, targets specific communities, and we use that term when specifically referring to targeted geographic impact.

Place-based impact investing refers to the local deployment of impact capital to address the needs of targeted communities.

Options for Driving Impact for Community Foundations

In the past, most foundations (including community foundations) invested their capital for financial gain and would then spend or grant a portion that advances their mission. Over the last five to 10 years, foundations and community foundations gained new options for driving impact to further their financial and mission-related goals. MRIs are typically market-rate seeking investments. Program Related Investments (PRIs), on the other hand, operate like grants since foundations can use them for charitable activities. When foundations make PRIs, they expect to get the money back by a specified time, usually at below-market interest.[3] Foundations commonly make PRIs as a supplement to their existing grant programs. MRIs are not charitable activities, rather they are made from investment assets and can be across a range of asset classes. MRIs look to generate positive social returns and competitive risk-adjusted returns on capital.



Source: https://nonprofitquarterly.org/how-pris-work-a-basic-primer-for-nonprofits

Three Key Benefits to Community Foundations of Place-Based Impact Investing

Community foundations have been particularly interested in making place-based impact investments given their mission of improving the lives of people in a defined local geographic area. Redirecting even a small portion of an institution's investment portfolio to place-based impact investments could shift billions of dollars toward addressing economic and environmental disparities in local communities.[4]

We have included three key benefits to community foundations of place-based impact investing. This list is by no means exhaustive.

1 Deploying more capital in support of community needs

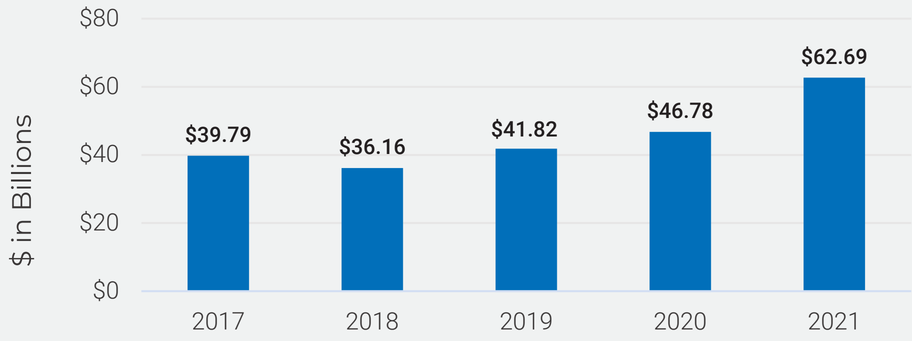
Place-based impact investments can allow community foundations to deploy more of their capital to benefit their local communities and support larger scale and/or other important community projects that they may not typically support through grant programs. Often, these communities have lacked investment and are disproportionately populated by racial minorities and low-income residents. In the case of place-based impact investments, capital can be specifically targeted to the neighborhoods in which they operate and serve.

Charitable assets in DAFs at community foundations have been growing, totaling $62.69 billion in 2021, up 34% from $46.78 billion in 2020. The compound annual growth rate for 2017 through 2021 is 12%.[5]

This growth in charitable assets presents an opportunity for even more capital to be deployed in support of local, community needs through community foundations across the nation. Community needs can cover a range of environmental and/or societal initiatives, such as affordable housing, affordable healthcare, access to capital, education, neighborhood revitalization, and more.

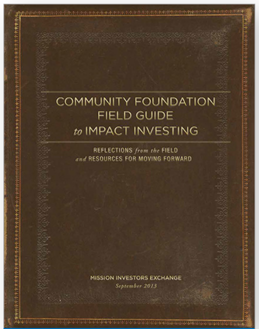
Charitable Assets in DAFs at Community Foundations

($ in Billions)



Source: https://www.nptrust.org/reports/daf-report/#:~:text=Total%20contributions%20to%20DAFs%20at,to%20 2021%20is%2020.2%20percent

For community foundations looking for more information in the **Mission Investors Exchange report**, visit: missioninvestors.org



View ▶

2 Scaling foundation resources and growing assets for the future

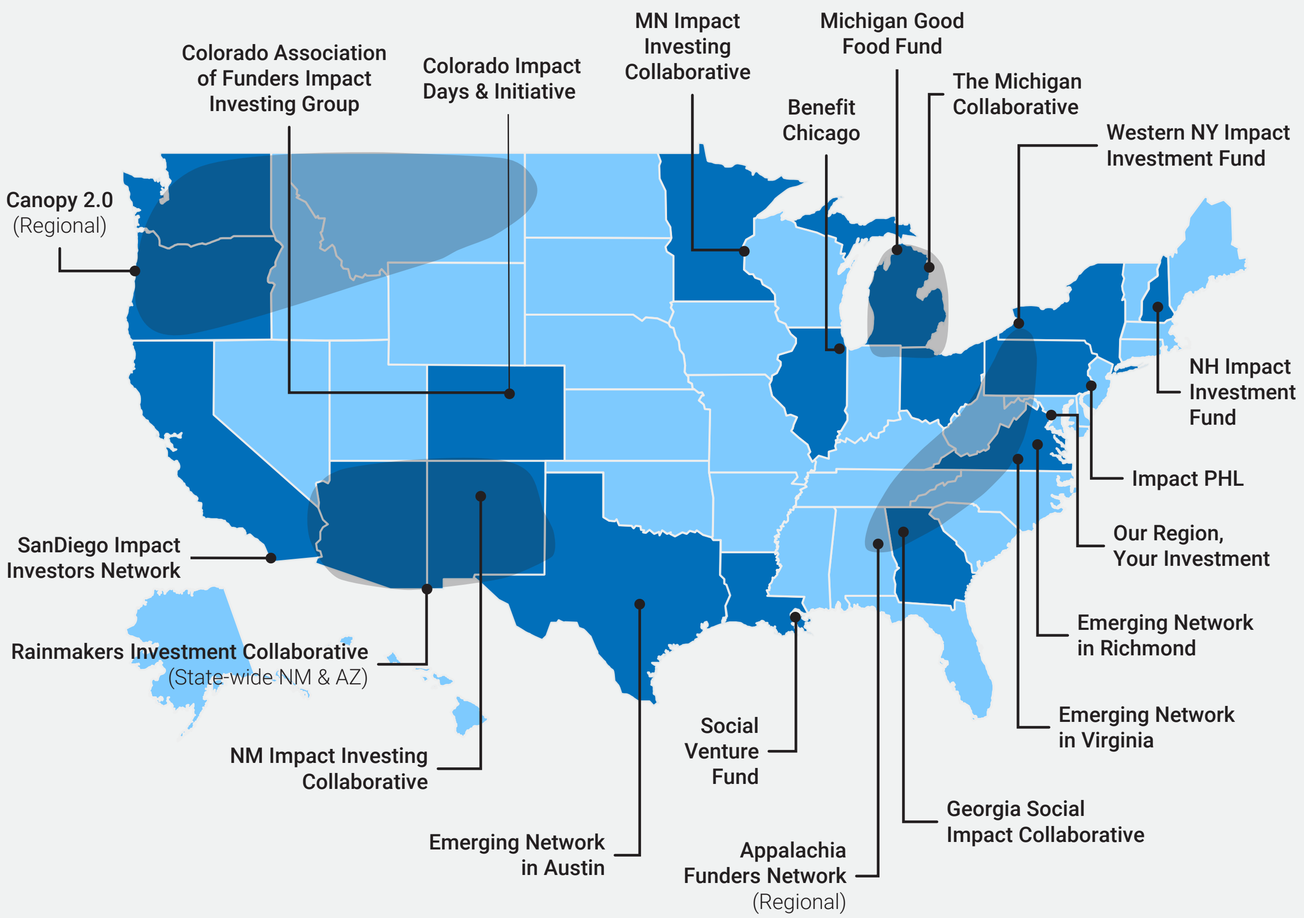
Philanthropy and investing have historically been viewed separately — one championing social change, the other financial gain. With impact investing, philanthropy and investing meet as one and can have a powerful effect on scaling foundation resources and growing future assets.

A multitude of benefits come from place-based impact investing that help scale a foundation's resources and grow its assets, according to Mission Investors Exchange "Community Foundation Field Guide to Impact Investing."[6] They include but are not limited to:

- **Building stronger working relationships:** Incorporating investment strategies into a community foundation's work with community partners — both nonprofit and for-profit enterprises — can help strengthen existing relationships and build new ones.
- **Strengthening community capacity:** Current grantees may be able to build their capacity to become investees of the organization and/or others, potentially resulting in new or stronger programs or the ability to bring programs to scale.
- **Scaling community solutions:** Having the flexibility to go beyond traditional grantmaking can create opportunities for community foundations to play a larger role in collaborative efforts, addressing large-scale community challenges, such as job creation or affordable housing preservation. As co-investors, foundations can leverage their financial and non-financial assets and bring new attention and support to their own organizations.
- **Strengthening a foundation's influence:** Community foundation team members may become better community partners by learning how to use more complex investment tools. The number of community foundations including impact investing as part of their philanthropy continues to grow. For these community foundations, impact investing creates new opportunities that can allow them to support projects and initiatives that are too large for grants alone, collaborate with other public and private funders, engage existing and potential donors, build community capacity, and shape and influence the marketplace.

Place-based impact investing continues to gain momentum in philanthropy, helping communities grow small businesses, create high-wage jobs, and increase the supply of affordable housing. Rather than going at this practice alone, many foundations, especially small and midsize foundations, are designing innovative ways to work with each other and leverage their own investment capital and the capital of others to make progress on positive community goals. Collaboration helps these foundations pool resources, increase investor capacity, streamline the investment process, and align investments toward community-led visions. A 2018 report from the Urban Institute, "Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing," shared a map of collaborative place-based impact investing initiatives across the country.[7] We believe even more collaborative initiatives have transpired over the last five years.

Map of Collaborative Initiatives in the Sample



Source: Urban Institute (based on content from interview analysis)

3 Diversifying investment strategies

Impact Investing occurs across asset classes and with a broad range of financial instruments. The main asset classes include fixed income, real assets, public and private equity, and private debt. Many in the field continue to discuss whether impact investing could emerge as its own asset class because it drives development and uses specialized metrics and benchmarks, but this is yet to be seen.[8]

Diversification is essential for managing investment risk and return in a portfolio. Broadening investments across a variety of asset classes can reduce the impact of any one investment or sector. Impact investing can be a valuable addition to a portfolio because it allows an organization to align its investments with its values while also diversifying holdings.

Every investment has an impact and across every portfolio, risks and returns will vary. The outcome for returns depends on the type of investment, its strategy, and its philosophy. Diversifying investment strategies is fundamental across any investment portfolio. Like what one may see in a traditional spectrum of investments, impact investments across asset classes also help diversify a portfolio from a financial and impact standpoint. Including impact investments in a community foundation portfolio can expand investment options, make fuller use of its resources, and extend its impact.[9]

Impact Investing Asset Class/Return Rate Spectrum

Image Credit: The GIIN

The Lifecycle of Place-Based Impact Investments

Place-based impact investing offers the chance to spotlight collaborative efforts that can result in better economics and better community outcomes. Their grantmaking and other programmatic activities mean that community foundations are often already deeply familiar with local challenges, opportunities, and solution providers. In some cases, a single project or targeted community may receive funding from one or multiple sources resulting in a multitude of local, community benefits, including job creation opportunities and neighborhood revitalization.

While each place-based investment opportunity has unique characteristics, certain themes tend to repeat in the lifecycles and evolution of place-based impact investments. Every stage of the revitalization process is dependent upon the others for success. Connecting the dots of place-based impact investing can help all participants work more efficiently and with a better understanding of the entire process. As one can well imagine, coordinating the financing from disparate and multiple sources can be challenging when it comes to ambitious projects, such as the rehabilitation of multifamily housing developments in low- and moderate-income (LMI) urban neighborhoods. Capital sources may be siloed, making partnerships essential for projects in which costs can run to millions of dollars. It is testimony to the overarching environmental and social missions of impact investors that many of these ambitious projects come to fruition. Documented successes provide assurance that it can be done and the involvement of impact investors in the process helps contribute to successful outcomes.

1

First, the private or public sector funds builds a property for market-related use that is appropriate at time of construction.

2

Second, with the passage of time and changes in neighborhoods and local economies, a property's original purpose is no longer relevant or economically viable.

3

Third, subsequent neglect and sometimes abandonment creates an eyesore and/or safety hazard and contributes to decline in property values becoming part of a negative spiral for communities and residents.

4

Fourth, government planners and foundation-supported entities seek to craft a repurpose and rehabilitation strategy that will return the property to fuller use and be part of the overall revitalization goals.

5

Fifth, a winning plan emerges and the scramble to put together financing packages begins. Public agencies and/or foundations spend money to create an opportunity that will attract private capital.

6

Sixth, construction and rehab occur, frequently with grants, program-related investments (PRIs), or foundation support from non-profit partners; available subsidies are drawn, and a property is ready to return to the market with a new purpose. Banks and construction lenders typically play a role.

7

Seventh, a permanent financing takeout whereby a patient capital long-term investor will own a mortgage or similar investment instrument on the reincarnated property.

This is where CCM's role comes into play – the long-term patient capital.

Case Studies of Community Foundations Making Place-Based Impact Investments

We always hear how helpful it is to learn what other investors do in the field and how they make impact investments. In this section, we are thankful to have several community foundations provide case studies, answering questions on their impact investing experience.

California Community Foundation

Los Angeles, CA

The California Community Foundation (CCF) is a vibrant and enduring resource committed to fulfilling the promise of Los Angeles County. CCF understands the unique needs and remarkable potential of L.A.'s rich diversity. CCF knows from experience that ordinary people can accomplish extraordinary things, and together, they are stronger. For more information, please visit https://www.calfund.org.

1 When and why did your community foundation begin to make impact investments?

Our mission is to lead positive systemic change that strengthens Los Angeles communities. We envision a future where all Angelenos can contribute to the productivity, health, and well-being of our region. Following our mission, we began making impact investments targeting Los Angeles County on May 1, 2008.

2 What are some of the opportunities and challenges your community foundation faced in making impact investments?

As we look to the future, the CCF's board of directors and staff remain fully committed to making a difference through meaningful advocacy, outreach, and community investments. While it's not always easy finding investments that align with our mission, that have meaningful impact to people and communities in Los Angeles County, and that meet our financial criteria, it has helped us be more diligent in our research and due diligence. Early on, impact investments weren't widely available, but as the field has expanded and grown, it has become less of a challenge to find impact investments meeting our impact and financial objectives.

3 How has your foundation been able to expand and leverage impact investing to promote the flow of capital for social good in your local community?

We have expanded and leveraged impact investing by creating various programs like PRIs, housing, and other social investment in the community.

4 How were your consultants and board members involved in the implementation of your impact program?

Foundation staff initiated the program with approval from the board.

5 Why do you think community foundations must go beyond grantmaking to affect social change?

Community foundations can play a unique role by going beyond grantmaking to affect social change, thus having a bigger impact in the community, and helping to solve important local problems.

6 Has your impact investment activity been connected to your DAF donors or prospects?

Yes, our impact investment activity is connected to our DAF donors and prospects, and we look to share this information on an ongoing basis.

7 What recommendations would you offer to other community foundations interested in impact investments?

Like any investment the foundation considers, proper due diligence and research is necessary. It's helpful to collaborate with other community foundations that have made impact investments, and it's worthwhile to speak with your consultant or advisor. It is also useful to see examples of impact reports or metrics the investment manager monitors and tracks so your team will have an idea of what they will receive should they make an investment.

ADIRONDACK FOUNDATION

Adirondack Foundation Board Chair Joe Steiniger shares some additional thoughts on the Foundation's impact investments:

> *Our impact investments can be more efficient than a traditional grant and provide a means to leverage philanthropic dollars that are not available through publicly traded investments or traditional grants.*
>
> - *All DAF investors and every other fund at Adirondack Foundation participates in our mission investments.*
> - *One of our recommendations was to invest in intermediaries so that our initial risk is limited.*
> - *The ultimate objective of maximizing returns in our endowment portfolio is singular: to provide more dollars to put to work in our Adirondack communities. Utilizing local impact investments makes us more effective in our service to the community but will be hard to quantify in our financial returns.*

Adirondack Foundation

Lake Placid, NY

Love for the Adirondacks runs deep, fostering a spirit of generosity that has become one of the defining characteristics of the region. That generosity was the driving force behind Adirondack Foundation's creation in 1997, when it began building charitable assets to strengthen Adirondack communities. Since then, the Foundation has worked with thousands of generous individuals, families, businesses, and organizations to channel philanthropy into our communities and ensure everyone who loves the Adirondacks can thrive in it. For more information, please visit www.adirondackfoundation.org.

1 When and why did your community foundation begin to make impact investments?

We began to make impact investments in the spring of 2022. We did so at the urging of our CEO, Cali Brooks, because she saw a great need to deploy our investment assets locally. We spent over a year looking at how other community foundations approached these issues as well as gaining an understanding of where in our rural region this type of investment would have the greatest impact. We identified a significant need for investments in low- and moderate-income housing, small business capitalization, and job retention and creation.

2 What are some of the opportunities and challenges your community foundation faced in making impact investments?

We believe foundations can leverage additional assets to improve lives and expand opportunities. We chose to invest in housing projects and access to capital for small businesses. These are two areas of great need in our community that we would not have been able to adequately address with our grant dollars alone. Now, we can make loans paired with grants to build organizations' strength while at the same time deploying capital into our communities.

While impact investing allows us to be strategic, it also takes time and human resources. We took this on when we had sufficient capacity on our board and finance committee as well as a new vice president for community impact. We dedicated considerable time and resources to study how we might start, where we would focus our lending, set up the processes, and then develop the relationships, trust, and shared outcomes with partners. This work took place with the attention of board and community members, funding partners, and staff over the span of two years.

3 How has your foundation been able to expand and leverage impact investing to promote the flow of capital for social good in your local community?

We have leveraged our work on impact investments to make more strategic grants and become a known advocate at the regional and state level for workforce and attainable housing in our region. In under one year, 20 families have homes in part because of our investments. We have also been able to attract another foundation and private funder together to match our investment — $500,000 loan and operational and loan loss reserve dollars — in our only regional Community Development Financial Institution. Our combined loan engaged New York State, which matched the small business lending program. This made for a combined total of almost $2 million available to the small businesses in our region, providing both technical assistance and low-barrier access to capital. One smaller investment of $100,000 with a local federal credit union is helping the ALICE (asset limited, income constrained, employed) population purchase, pay off, and maintain used cars. In our rural region, transportation is a critical need.

4 How were your consultants and board members involved in the implementation of your impact program?

Several of our board members participated for over a year in an in-depth study of what others had done in this subject area and what their learnings and recommendations were regarding our program. Once that committee provided recommendations, the staff worked on implementation. Four board members now sit on a subcommittee of the Finance Committee to approve investments and monitor results. We have not yet finalized how we will measure the impact of these investments and may deploy a consultant in this area.

5 Why do you think community foundations must go beyond grantmaking to affect social change?

Community foundations are voices for their regions. Impact investing allows them to study needs in a new way, deploy additional capital for social change, attract new funding partners, and often engage and affect the economy of their region in a way they may not otherwise be able to. Also, community foundations are, in essence, endowments for their regions. They make it possible to address our needs today and the needs of future generations in years to come. The challenge is that it takes significant invested assets to maintain the purchasing power of assets over time — to be able to invest assets locally and continue to build them for the challenges of the future is a must do if you have the resources to do it thoughtfully. Growing our impact investments is a key outcome for our new strategic plan.

6 Has your impact investment activity been connected to your DAF donors or prospects?

We chose to deploy 2% of all Adirondack Foundation investments in our Main Pool into impact investments and not to allow individual DAFs to invest. Some of our largest DAF donors with private foundations have partnered with us. We introduced it and have talked about it with all donors — publicizing it in our annual report and newsletter. While we do have a fund that donors could make gifts to, we have not yet developed a public campaign to attract gifts.

7 What recommendations would you offer to other community foundations interested in impact investments?

- Do an extensive study up front to identify what others have done and think carefully about which of those learnings apply to your situation.
- Keep it simple, especially at first.
- Start slowly and build up to your eventual goals so that mid-course corrections can be made before you are too far into the process.
- In the beginning, invest in intermediaries so that your initial risk is limited.
- Bring large DAF holders, donors, and partner foundations into the process along the way.

Battle Creek Community Foundation

Battle Creek, MI

The Battle Creek Community Foundation (BCCF) is a public foundation built by generous residents who have donated their time, talent, and treasure to make Battle Creek a better place to live. It was founded in 1974 by Leonard White, Robert B. Miller, and Harry Davidson. Their goal was to create a way for people of all means to be able to give back to their community. The Foundation's mission is to promote giving, build endowment, and provide leadership to improve quality of life. For more information, please visit https://www.bccfoundation.org.

1 When and why did your community foundation begin to make impact investments?

We began studying this area in 2015 and began piloting it in 2017. It became a full "authorized" committee of BCCF in 2018. The interest in this work was to leverage BCCF assets for greater impact, especially in economic development in resurrecting downtown and increasing entrepreneurship.

2 What are some of the opportunities and challenges your community foundation faced in making impact investments?

Investment recipients, especially for-profit entities, did not want to provide reporting and in at least one situation, asked BCCF to forgive the interest rate we charged and to forgive pre-payments we made on event space rental. The biggest hurdle was entrepreneurs and local projects wanted (and continue to want today) free money/funds for their projects/businesses.

3 How has your foundation been able to expand and leverage impact investing to promote the flow of capital for social good in your local community?

We are currently completing a review of our investments with most deals flowing positively for BCCF. This report will also include additional investments that we were able to leverage from a positive standpoint.

4 How were your consultants and board members involved in the implementation of your impact program?

Every decision is made by the impact investment committee as they make recommendations to the board of trustees. All recommendations are then reviewed and approved by the board. Consultants assist the committee in the vetting process.

5 Why do you think community foundations must go beyond grantmaking to affect social change?

The solutions that must be deployed are not all nonprofit oriented and the challenges have grown in the financial sense including deploying components of a foundations resources to positively affect change. Loans and investments utilize the corpus of the foundation and can create new strategic partnerships that are not used on a regular basis. It adds more tools and opportunities for partnerships and leverages resources.

6 Has your impact investment activity been connected to your DAF donors or prospects?

In isolated incidences, we have secured substantial charitable gifts where we have made an impact investment. We have not yet used DAF funds for investments.

7 What recommendations would you offer to other community foundations interested in impact investments?

Look carefully at sustainability. Be creative – community foundations are extremely flexible community assets. Conduct a review of how your foundation can start an investment fund with its assets while attracting other investors to focus on needs in your geographic area.

Conclusion

We hope this report provides educational content for community foundations on place-based impact investing and how it can be a complement to traditional grantmaking. Over the years, we have found it is always helpful to share details on the lifecycle of place-based impact investments in addition to hearing from peers on their place-based impact investing experiences. We always welcome feedback on our reports and appreciate your time and interest in reading this piece.

About CCM

Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. CCM was founded in 1998 and manages over $4 billion in assets. The firm's mission seeks to deliver superior risk-adjusted returns through investment strategies that contribute to positive environmental and social outcomes. For more information, please visit: www.ccminvests.com.

1 *https://cof.org/foundation-type/community-foundations*
2 *https://cof.org/advocacy/donor-advised-funds*
3 *https://learning.candid.org/resources/knowledge-base/pris*
4 *https://www.nptrust.org/reports/daf-report/#:~:text=Total%20contributions%20to%20DAFs%20at,to%202021%20is%2020.2%20percent*
5 *https://missioninvestors.org/sites/default/files/resources/Community%20Foundation%20Field%20Guide%20to%20Impact%20Investing.pdf*
6 *https://www.urban.org/urban-wire/three-ways-collaboration-could-potentially-advance-place-based-impact-investing*
7 *https://www.mycnote.com/blog/what-is-impact-investing*
8 *https://missioninvestors.org/sites/default/files/resources/Community%20Foundation%20Field%20Guide%20to%20Impact%20Investing.pdf*

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