NATIONAL CENTER FOR
FAMILY PHILANTHROPY

PASSAGES Issue Brief

EXPLORING KEY ISSUES IN FAMILY GIVING

EMOTIONALLY INVESTED
A collection of articles about Impact Investing

IN THIS ISSUE

The 2017 National Forum on Family Philanthropy revealed a great deal about the knowledge and level of commitment that many families currently have toward impact investing. In our impact investing sessions and workshop, we asked attendees to create their own foundation and develop their own investment policy statement. Despite a shy start from some, the creativity in the room was phenomenal; each participant crafted insightful portfolio goals that aligned with their mission, and each family team came together seamlessly to support values on both sides of goals and investments. It was a delightful moment to see family leaders deconstruct a portfolio in order to construct something new, valuable and aligned to a purpose that moved beyond financial gains.

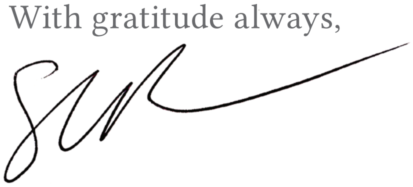
The theme of this issue of *Passages* is "Emotionally Invested" and it includes a number of articles about impact investing alongside your values. Impact investing seeks a return from one's investments other than a strictly financial return. For the majority of impact investors, that means they seek a general or specific environmental, social or governance outcome, in addition to a financial return, from their investments. For example, an investor who may be concerned about the effects of climate change, may seek to reduce the exposure to fossil fuels in their investment portfolio, reinvesting the proceeds in either alternative forms of energy or in other investments. Others may choose to invest in solutions designed to increase options for affordable housing. With impact investing – it is possible to invest with intention and insight and still have an eye toward a competitive market return.

What follows in this publication are a series of articles that help give real, practical meaning to what impact investing is all about and how families can identify and build shared values that extend to their investments.

We know the ways we have supported families have helped further identify, embed, and nurture values across generations and toward a sustainable family future. The challenges that we face in our communities and in our world demands the thoughtful and long time horizon capital that multigenerational families can bring to bear; capital that seeks to work well beyond financial returns for a thriving, regenerative world.

Please enjoy!

With gratitude always,



Stephanie Cohn Rupp | Managing Director, Impact Investing

Threshold Group

Charting a Course to Impact Investing for The Russell Family Foundation

Using dialogue and diversification to support your mission

The idea of impact investing tends to divide people into two groups.

Some believe it is the best-of-both-worlds; a way to invest that bolsters their mission while generating competitive returns. Others fear that it is too-good-to-be-true; a distraction that cannot consistently produce returns that are comparable to traditional investing models.

In recent years, those who are bullish about impact investing seem to have outnumbered the bears. In 2016, the impact investing market in the U.S. was estimated at $8.72 trillion, or one-fifth of all investment under professional management.[1] By comparison, the market was "just" $3.74 trillion in 2012.[2] As the field matures, product offerings will multiply, and even more investors will likely enter the space, begetting more growth and impact.

In the meantime, families looking to initiate or expand impact investing strategies should reflect on how deeply their philanthropic mission permeates their investment philosophy. They should ask how far they are willing to go to assemble an ecosystem of assets that support their impact goals.

These are the types of deliberations that The Russell Family Foundation (TRFF) undertook as it deepened its commitment to impact investing. Over the past few years, the foundation has moved aggressively, coordinating its investments with its mission of promoting environmental sustainability, grassroots leadership, and peace. In 2013, their portfolio was 7% mission aligned. Today it stands at 80% mission aligned. During the same timeframe, the portfolio has outperformed its blended benchmark by 4%.

Following are some key takeaways from their experience, which may prove helpful to others charting their own course.

[1] The Forum for Sustainable and Responsible Investment – 2016 Report on US Sustainable, Responsible and Impact Investing Trends

[2] Impact Investing 101. The Calvert Foundation.

Families looking to initiate or expand impact investing strategies should reflect on how deeply their philanthropic mission permeates their investment philosophy.

The goal of impact investing is to deploy resources to advance a mission, which is why you will often hear the term "mission-aligned" and "impact" used interchangeably. Nevertheless, it is important to understand the differences between mission, impact, and program-related investments.

CLARITY OF INTENT

A successful impact investing strategy requires clarity of intent. Foundations must ask "Why do this?" and "How best to proceed?"

Knowing exactly what is in your portfolio is the first step. Could there be any holdings working at cross-purposes with the mission? When TRFF began asking these questions, the answers led to a relatively small divestment from 15 coal stocks. From there, the foundation ultimately decided to divest fully from all oil, gas and coal holdings in favor of specific themes such as forestry, agriculture, and clean technology.

Those decisions highlight another point: Having a deliberate, phase-based framework for ongoing divestment decisions is essential. For TRFF, that meant going after low hanging fruit first – such as investments that run counter to the mission. Once that phase was complete, the investment team could concentrate on longer-term strategic investment decisions that support specific goals. For example, TRFF has developed guidelines to identify capacity-building opportunities across three thematic areas:

- **Equitable Communities:** Investments that promote affordable housing, access to capital, low-impact development, food security and job creation.
- **Responsible Economies:** Investments that promote new economic development, entrepreneurship, minority/women/native-owned enterprises, and innovative partnerships.
- **Sustainable Environments:** Investments that promote sustainable land management, local agriculture and farming, climate change mitigation and adoption, and water quality improvements.

REASONABLE EXPECTATIONS

Another imperative for impact investors, especially those new to the field, is setting reasonable expectations. Benchmarks and other performance measures provide useful guidance, and equally important is having exposure to other impact investors.

TRFF has been very proactive. They have joined with other funders as a signatory to Divest-Invest Philanthropy in 2014 and are a member of both the Ceres Investor Network on Climate Risk and Sustainability and Carbon Disclosure Project. These industry groups and peer organizations provide valuable insights to help calibrate expectations and fine-tune strategy.

Mission Related Investing (MRI)	Impact Investing	Program-Related Investing (PRI)
The effort to utilize the investment management process, in addition to grantmaking, as a tool for pursuing philanthropic purpose or mission. This approach can encompass the use of social or environmental screens on securities, the voting of proxies, and other investor advocacy such as use of venture capital.	An investment strategy in which an investor places capital in businesses, organizations, and/or funds that can generate financial returns as well as support an intentional social or environmental goal.	A philanthropic approach in which foundations make capital available to organizations or initiatives to address social or environmental concerns. Unlike grants, PRIs are expected to be repaid either with or without a net financial return. PRIs provide charitable organizations or commercial ventures with needed capital, typically at favorable terms. In turn, foundations can have a broader programmatic impact and are able to count PRIs toward their minimum 5% payout of net assets.

DIALOGUE AND DECISION MAKING

While some foundations have traditionally kept their program staff separate from their financial advisors, TRFF has gone the other direction, opting instead for a fully-integrated team. This approach has yielded reciprocal benefits: program staff have expanded their roles beyond standard grantmaking and acquired a level of financial literacy uncommon among their peers; while the impact investing team working for the Foundation, Threshold Group, has gained a deeper understanding of the foundation's mission, which provides vital context for recommending appropriate impact investments.

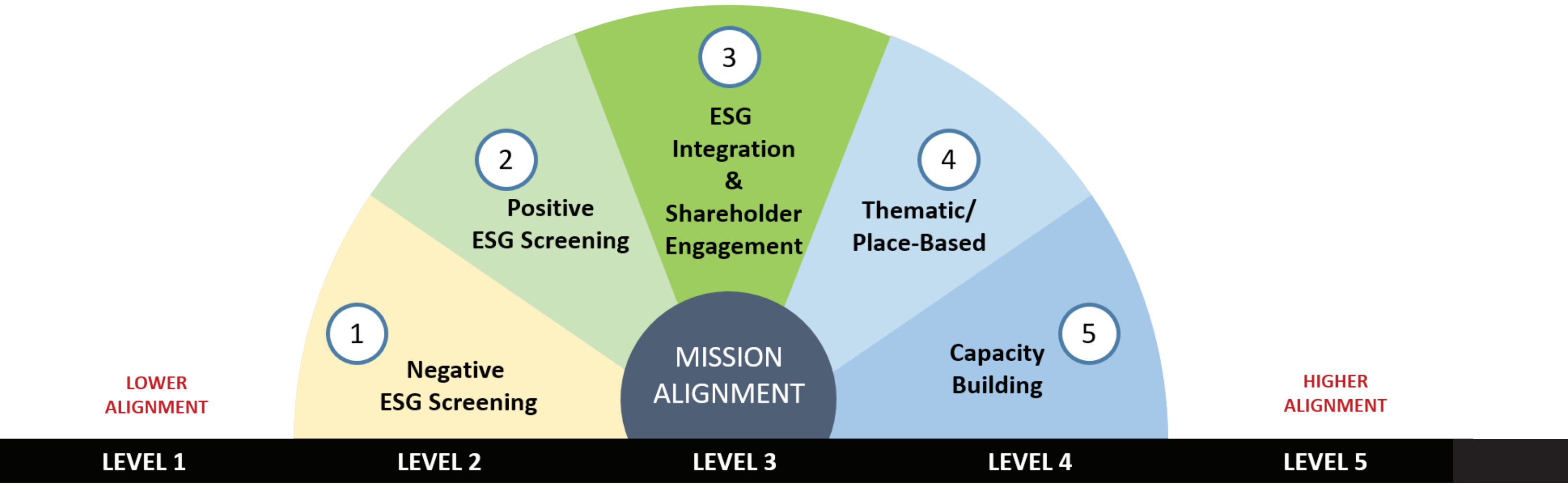
This internal collaboration has been "baked-in" to the relationship between TRFF staff and their financial advisors. The foundation has established a Mission Related Investment Committee that includes TRFF's leadership, its program officers, its finance and operations team, and representatives from Threshold Group. The committee meets quarterly to vet new impact opportunities and to share insights about investing and program priorities. The annual strategic planning retreat which includes Threshold Group staff and the Investment & Audit Committee is when they "go deep" on key topics related to the mission aligned portfolio.

PORTFOLIO STRUCTURE

Impact investing is not a "new asset class" or one that should be addressed only through private equity or venture capital. However, it does necessitate a new vetting process to build a comprehensive and diversified impact portfolio. With the help of its advisors, TRFF has designed a straightforward categorization framework to evaluate investment opportunities along a "spectrum of impact." It includes five levels with increasingly greater mission alignment and impact potential. All five levels have a fixed purpose, but they are dynamic in application. The framework provides structure and consistency for asset allocation (or reallocation) decisions in a field that still has a way to go in terms of standards.

On a broader scale, Threshold Group organizes its socially responsible investing research in line with several established theories of change. The majority of investment opportunities identified (MRI, Impact and PRI) are aligned with these impact themes.

- **Financial Wellness:** Small businesses are an important driver of economic growth and a key component for resilient communities. Impact investors can help small business owners gain access to capital through a range of vehicles such as Community Development Financial Institutions, microfinancing, peer-lending, and affordable education loans.
- **Education:** Investing in education is vital to improving U.S. workforce competitiveness, closing the economic opportunity gap and breaking the poverty cycle. Opportunities to promote broad access to education span multiple segments (e.g., early childhood, K-12, and workforce training) and focus heavily on technology, including new platforms for online learning.
- **Environmental Sustainability:** Global climate change presents a multitude of environmental, social, and economic risks, which have long-term implications. Investing in "low-



LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4	LEVEL 5
NEGATIVE ESG SCREENING	**POSITIVE ESG SCREENING**	**ESG INTEGRATION**	**THEMATIC, PLACE-BASED**	**CAPACITY BUILDING**
Negative screens" on securities or industries to avoid investments that run counter to the mission	"Positive screens" or "tilts" to overweight our portfolio towards investments that support the mission	Investment strategies that integrate environmental, social, and governance factors	Deployment of capital to specific categories and locations in fulfillment of the mission	"Catalytic" investment opportunities that have the potential for outsized environmental or social returns

carbon" industries and new technologies that minimize carbon emissions can help mitigate the impact of climate change. Opportunities in this arena include clean energy, energy efficient ("green") construction, land conservation, and sustainable forest management.

GENERAL BEST PRACTICE

Every foundation is unique, with its own mission, values, and theory of change. When it comes to impact investing, the guidelines outlined below helped TRFF deepen its impact focus.

- **Investment Policy Statement**: Revise your Investment Policy Statement to merge your investment and impact goals within one document. Review this document at least annually to determine whether stated investment objectives are still relevant.
- **Total Portfolio Activation or Carve Out:** Determine whether you wish to pursue impact investments in all asset classes across the portfolio or just select portions.
- **Incremental Changes:** Take a phased approach to restructuring your portfolio. First, develop a strategic divestment plan to eliminate holdings that are counter to the mission, then move on towards integrated, thematic, and place-based investing.
- **Shareholder Engagement:** Exercise your right as a shareholder. Take advantage of voting proxies and co-filing corporate resolutions on topics aligned with your mission.
- **Millennial Influence:** 78% of millennials believe in impact investing and as they take on more leadership roles, they will have even greater influence over the field. Differing beliefs and behaviors between younger and older generations can cause conflict, but that disagreement can also provide opportunities for dialogue, experimentation, and redefining impact.[3]

There is a lot of buzz about impact investing, and just like traditional investing, it requires a long-term perspective and thoughtful strategic plans, which must be tested and refined on an ongoing basis. While merging your investment and impact goals can feel like an arduous process, your impact will be deeper in the long-term.

[3] U.S. Trust Insights on Wealth and Worth survey - 2017

IMAGINING YOUR ESG (ENVIRONMENT, SOCIAL AND GOVERNANCE) STRATEGY

Many family foundations, both large and small, commit to mission-related investing as a way to elevate the impact that their organization wants to achieve. In order to reach both their investment and impact goals, a foundation has a wide range of investment tools available including mission-related investing, program-related investments, thematic investments, and place-based investing across all asset classes.

Many impact investors will develop an ESG strategy when transitioning from a traditional portfolio to an impact portfolio. ESG indicates the different environmental, social and governance themes and opportunities that investors can pursue. The articles that follow describe the ways in which foundations are able to invest within these strategies. Additionally, the last article explores the process in which foundations can actively engage as a shareholder with the public companies that they own, joining shareholder resolution campaigns that align with their goals in order to create the change that they seek.

Investing in the Environment

A landscape of opportunity

Not surprisingly, this and similar stories of childhood exploration are the seeds of nostalgia for many Americans born in the years prior to the tablet or cell phone. Most of us can recall the wild spaces near our homes, the backyard adventures and trips through the neighborhood woods. This is one of the many reasons that the environmental movement is such an important piece of today's impact agenda. People are inherently drawn to protecting the planet and its resources because of our deep, emotional, spiritual and physical connections to nature and our drive to preserve it for future generations.

For families and foundations, there are many ways to explore impact investing with an environmental theme. Whether your particular interests are driven by providing climate solutions, conservation, environmental justice or education – structuring a portfolio to invest for a sustainable environment is possible through most asset classes. Stepping away from harmful investments and building an ecosystem of assets that are aligned to your mission and/or values can be achieved, opportunistically, in a number of ways.

DUMP THE FOSSIL FUELS – DIVESTMENT AND BEYOND FOR A SUSTAINABLE PLANET

Since 2010, divestment from fossil fuels has been a growing movement. With events like Standing Rock in North Dakota making global headlines, large and small family foundations, celebrities, and even the President of the World Bank – the Divest movement has accelerated around the globe. Currently, Go Fossil Free, the website tracking divestment pledges, reports that over $5.5

"My childhood was a childhood outdoors. My favorite memories of being a kid were building driftwood forts, climbing trees, having sword fights with sticks, and all of these sorts of 'adventures of childhood.' When I think about how I want to raise my daughter, who's five months old, I really think about how I want to give her a joyful outdoor childhood."

—Andrew Jay, CEO of Tiny Trees

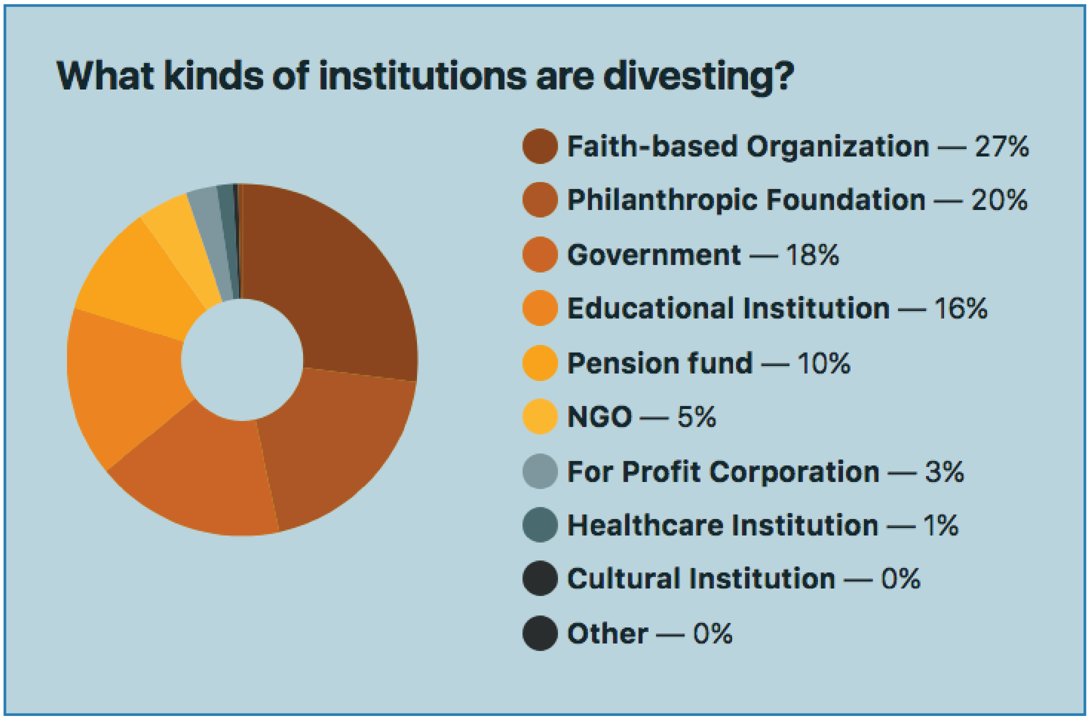


Image Source: Go Fossil Free: https://gofossilfree.org/commitments/

trillion dollars have been divested from fossil fuels. This includes over 800 institutions and 60,000 individuals.[4]

Many of Threshold's clients choose to have their portfolios screened for fossil fuels as a first step – and the possibility to take it further in a foundation endowment can involve a multi-year process with commitments from board and/or staff members. One large family foundation that we have worked with has chosen to divest from fossil fuels completely in order to better align with their mission of inspiring children to be inventors and innovators. Their goal is to position their endowment for a future economy that they believe will be defined by climate change. For this foundation, a "Low-Carbon Portfolio" is able to address one simple, yet pragmatic impact goal: minimize risk and seek returns without relying on fossil fuels.

Since 2010, their total divestment in fossil fuels has climbed to $10 million. Not only has the foundation worked through all of their holdings to divest – but they are exploring both sides of low-carbon investment management. One side is divestment from high-emission industries. The other is investment in industries that either reduce emissions, or sequester carbon in trees and soil where it cannot be released into the environment. Each new investment has been vetted through an environmental lens in which we apply carbon considerations on a per-dollar basis, weighing carbon issues alongside risk and return profiles. Today, over $100 million in new investments have been made under the low-carbon thesis and they continue to inspire others to be innovative – in every facet of their work.

DIG IN AND DIVERSIFY – INVESTING ACROSS ASSET CLASSES TO MOVE THE NEEDLE

Aligning investments to a mission of environmental sustainability, beyond fossil fuel divestment, requires a thoughtful approach. In the leading article about The Russell Family Foundation (TRFF) – we discussed how work at the board and staff level as well as the family level required intentional communication, building off the narrative of the mission and defining objectives in order to develop guidelines for investments.

After TRFF choose three thematic investment profiles defined as Equitable Communities, Responsible Economies, and Sustainable Environments, the team researched investments that would fit within these themes. Within Sustainable Environments, investments span traditional and catalytic strategies in ESG mutual funds, fossil-free fixed income, as well as private equity, private debt, and venture capital.

[4] https://gofossilfree.org/commitments/

Tinkergarten, an education program that offers structured, outdoor classes for children and their caregivers was funded in Q3 of 2017 in a Series A through a $5.4 million investment by Owl Ventures, Omidyar Network and Reach Capital. Early seed contributions from 14 investors help launch the start-up in 2015. Since then, the company is now operating in 48 states; they employ 758 individual class leaders and have enrolled 67 thousand students (ages 18 months to 8 years) into their program.

As an EdTech startup – Tinkergarten is more than just a nature program for preschoolers. It is an online platform for training, support and administration for instructors nation-wide and a content provider for DIY nature curriculum. Through Tinkergarten and its programs – co-founder and former teacher, Meghan Fitzgerald explains that their efforts to get children and families outdoors goes counter to the app-based culture that technology companies are aiming to promote at the preschool level.

Their portfolio has funded businesses and projects in local organic agriculture, sustainable forestry, and water quality improvements to name a few. The Russell Family Foundation hopes to achieve 100% total portfolio activation through these strategies and have reached nearly 80% as of Q2 in 2017. Smaller family foundations can also work to align their investments – it just means being intentional in aligning your values and/or mission with your investments.

GET CREATIVE – OPPORTUNITY ISN'T ALWAYS WHERE YOU EXPECT IT

Some would say that the emergence of technology, video games, television and social media is the beginning of the end for our human connection to the environment. As a testament to this, one environmental justice theme that we see gaining support in recent years, both philanthropically as well as in the portfolio, is for organizations that focus on increasing access to nature experiences for families and children, especially in underserved communities. We see non-profits and social enterprises like The Children and Nature Network and Tiny Trees outdoor preschools making a positive impact in cities across the nation as they work to get kids and families back into nature and out from behind the screen. Not many would expect to find investment opportunities that support these ideas in the Ed-Tech sector.

"For me as an educator I feel like access to the natural world is just necessary," she goes on. "It's a place that's both stimulating and calming at the same time. If you had told me as a classroom teacher that I could do anything… that I could stand on my head, on the desk and both stimulate and calm the children, I would've done it. I would've done whatever you gave me. I feel

Investing with intention and insight can have a great impact on the ways in which we are able to connect, preserve and innovate for a sustainable future.

like the outdoors is designed to do just that. It has the right color palette. It has the right sensory stimulation. Everything. Our natural human relationship with the environment makes it a perfect place for learning."

When it comes to investing in the environment and promoting nature access, sourcing ventures like Tinkergarten takes a creative investment research team, with an open mind and a willingness to look for unique opportunities that offer the right balance of risk and return. These kinds of mission-aligned investments only serve to support grantmaking efforts and bolster market transformation toward a more sustainable future. Whatever your mission is and whatever your investment goals are – there are likely innovations happening in every booming business sector and finding the right ones can be a challenge worth the investment.

INVESTING IN NATURE FOR ALL

Investing with intention and insight can have a great impact on the ways in which we are able to connect, preserve and innovate for a sustainable future. Whether your family foundation chooses to go fossil fuel free, finance green buildings, fund sustainable agriculture, forestry and other businesses, or promote the human and nature connection through education ventures – just goes to show that our investments can have meaningful, positive impact in the environment and in the new economy. Andrew Jay from Tiny Trees may have said it best: "Being able to go outside and spend time in the natural world, helps remind us that we belong to an ecosystem, and we belong to a community, that we have connections to other people, and it forces us to take a moment to look up from our phones and acknowledge how beautiful the world is around us."

Foundations of Wellbeing

Impact investing in Affordable Housing to cultivate opportunity

The iconic works of Charles Dickens, including "A Tale of Two Cities," were written through the lens of Dickens's childhood experience as the unintended consequences of the Industrial Revolution unfolded around him. Factory workers did not have access to healthy, safe and affordable living conditions. In a modern-day twist, there is a growing disparity between those who can and cannot afford adequate housing today, whether owned or rented. Family foundations can invest in emerging opportunities to help close today's housing affordability gap while concurrently developing related infrastructure and services that support healthier and more prosperous and resilient communities.

Adequate shelter is literally and figuratively the foundation of a stable household and a key indicator of childhood wellbeing.[5] When designed and developed well, with the context of the broader needs of the community in mind, housing is a key tool in eliminating the cycle of poverty. Without stable housing – located near jobs, transit, greenspaces and schools – quality of life is significantly diminished.

In response to what has become a crisis of housing affordability in cities across the U.S., innovative family philanthropists are collaborating with real estate developers, affordable housing organizations, governmental agencies and other community leaders tackling these challenges. New affordable housing investment strategies and structures are being implemented that can be adapted across geographies.

THE STATE OF AMERICAN DREAM TODAY

Since the Global Financial Crisis of 2007-2008, the U.S. economy has improved markedly.

- Consumer confidence has climbed to near a 16-year high[6]
- Unemployment has achieved a 16-year low[7]
- Household wealth has grown to an all-time high of nearly $95 trillion[8]

> "There is not a single county in the United States where somebody working full time at a minimum wage job can afford that community's two-bedroom apartment. Not even in the most rural or least expensive areas in America does a minimum wage full time job pay for appropriate housing."
>
> *—-Jonathan Rose, President of Jonathan Rose Companies*

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[5] https://www.stlouisfed.org/on-the-economy/2017/august/wealth-another-peak-time-celebrate-worry

[6] http://nlihc.org/article/how-housing-affects-health-education-and-employment-outcomes

[7] https://tradingeconomics.com/united-states/unemployment-rate

[8] https://www.usnews.com/news/business/articles/2017-07-25/us-consumer-confidence-at-16-year-high

In contrast, nearly 40 million Americans can't afford the cost of housing and of those, nearly 19 million spend over 50% of their income on housing and are considered extremely cost-burdened.[9] It is concurrently one of the most prosperous and impoverished times with a stark contrast of inequity.

The lack of affordable housing is a complicated problem that is rooted in inequitable systems. For starters, it can be said that The Great Recession played a massive role in destroying wealth for millions of Americans. Many Americans had to enter a rental market that had already started on an upward trend. This, combined with shifting demographic, lifestyle, and economic trends, means America is on track for one of the highest decades ever in U.S. rental cost increases[10] which will leave leaving many with stunted opportunities.

Housing as a Basic Human Need – *Not Just a Dream*

Cities represent a complex and richly diverse ecosystem where all inhabitants contribute to civil society. Affordable housing ensures all residents, including lower income earners, not only survive but thrive. One of the greatest challenges today is that there aren't enough affordable housing units to meet the needs of many communities. Thousands of units continue to be lost every year because of many factors including gentrification, abandonment, expiring federal contracts and affordability controls.

Our team interviewed Jonathan F.P. Rose, a leader in urban development of affordable and environmentally responsible communities, to discuss his work in affordable housing development. He begins with this context to set the stage for the modern plight:

> *"There is not a single county in the United States where somebody working full time at a minimum wage job can afford that community's two-bedroom apartment. Not even in the most rural or least expensive areas in America does a minimum wage full time job pay for appropriate housing."*

Developing Differently – *Developing communities of opportunity*

Family foundations have long invested in real estate as a source of portfolio risk diversification, income and capital appreciation. Increasingly, mission aligned investors are discovering real estate investment projects that offer the opportunity to create 'blended value'. These projects blend financial objectives with positive, measurable social and environmental impact which includes affordability, financial equity and resource efficiency. Ultimately, these investments provide benefits for multiple stakeholders including renters who receive high quality housing while also generating a fair financial return to investors.

Developers, like Jonathan Rose Companies, are tackling the issue in two ways: First, by preserving existing housing stock and second, by developing resources in existing properties to enhance the well-being of residents, including computer rooms, garden projects, workout facilities, and virtual healthcare services. They are also partnering with multiple human services organizations to measure the impact of the above interventions. Mr. Rose said,

> *"Our goal is to measure the efficacy of the resources that we implement in our projects. If affordable housing is truly to be transformational we want to know which are the highest leverage transformations and why. In this way, the company is able to gain deeper insights into what really creates vibrant and healthy communities, and duplicate those efforts in other locations."*

[9] http://money.cnn.com/2017/06/16/real_estate/rising-home-costs-affordability-harvard/index.html

[10] http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ch_1_rental_housing_demand_from_americas_rental_housing_2015_web.pdf

Foundation grants provide integral resources to longitudinally measure the efficacy and impacts of affordable housing development. The Communities of Opportunity Outcome Demonstration Project is an example of a partnership between Jonathan Rose Companies and a nonprofit partner, Enterprise Community Partners. Their work, supported by foundation grants, identifies housing-based intervention strategies that non-profit and for-profit housing owners can implement to improve the lives of residents through future projects. Projects such as this serve as valuable tools that can influence policy and development models, and are intended to be open sourced and replicated.

Developing Differently – *Developing in the context of regional sustainability*

In addition to the work of Jonathan Rose, Forterra is an emerging affordable housing leader focused on the U.S. Pacific Northwest. Forterra has long been supported by family foundation grants as a stalwart public private partner in regional land conservation. This organization offers a holistic perspective on affordable housing that encompasses urban landscapes, and strong communities and economies. To learn more about Forterra's initiatives around building more resilient communities, we spoke with Tory Laughlin, Chief Operating Officer:

> *"Forterra's perspective is from a deep foundation in ecosystem health," Tory starts. "Some of our longest running programs are about our green spaces in the city and how to strengthen the health of the land, waterways and ecosystems. When you follow that thought – you end up finding that those things interweave with urban development and human social systems – and these systems and communities should be thriving too. That's what's both fascinating and frustrating about real estate, it touches everything!"*

Forterra's theory of change is built around gaining control and redeveloping of "keystone properties" –parcels important to the culture and ecology within the region. In urban centers this has evolved toward developing affordable housing in low-income communities with the objective of preserving the social, cultural and environmental fabric of communities at risk of gentrification.

Forterra is committed to partnering with key community leaders and organizations. Often funded by mission-related investors, including family foundations, these keystone properties are intended to create lasting value in the communities where they exist. Projects seek to include vibrant walkable environments, convenient access to transportation and jobs, ecologically-significant open spaces, and commercial space for neighborhood small businesses. Forterra believes these efforts will result in the fullest sense of the "highest and best use" of these anchor properties, to the benefit of the broader ecosystem.

WHAT TYPE OF AFFORDABLE HOUSING DOES A FOUNDATION PURSUE IN IMPACT INVESTING?

Affordable Housing is described by the US Department of Housing and Urban Development (HUD) as any housing that costs an individual or family no more than 30% of their income. An estimated 12 million renters and homeowners now pay more than 50% of their annual incomes on housing in the United States today.[11] Households paying more than 30% are considered cost-burdened, while those paying above 50% are considered extremely cost-burdened. Those who are able to qualify for housing fall into the following categories, delineated by metropolitan or regional Annual Median Income (AMI):

Low-Income or Workforce Housing: Describes households earning at or below 80% AMI

Very Low-Income: Describes Households earning at or below 50% AMI

Extremely Low Income: Describes households earning at or below 30% AMI

Producing mission related investment market rate returns for investors in affordable housing means that developers and builders may target projects that allow them to develop both market-rate housing alongside affordable housing. Investors have a number of opportunities to engage through financing, equity, debt and land banking, depending on the return that the investor seeks. Outside of their mission related investment portfolio, family foundations can also work to develop and support affordable housing through grant-making and Program-Related Investments (PRI's).

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COMMUNITIES OF OPPORTUNITY

Affordable housing serves as a base upon which we can build healthier families and more resilient, equitable communities. Family foundations can play an integral role in creating affordable housing; not just through funding organizations and development, but also through mission and program related investments that can dramatically expand the number of affordable and workforce housing units across the U.S.

STRATEGIES FOR INVESTING IN SUSTAINABLE, AFFORDABLE AND JUST HOUSING FOR ALL

Program Related Investments – in the form of loan guarantees, short term project development bridge financing (equity and debt), first loss capital, low interest loans and similar approaches. Often used to catalyze other investors and scale investment funds and low-income real estate development projects.

Mission Related Investments – market return seeking equity and debt investments typically structured for longer term project financing needs. May be income or capital appreciation focused, and incorporating blended value objectives across a range of intended outcomes including financial, social and environmental.

Social Equity Strategies – emerging models are being developed and tested that enable low income renters to benefit when properties held by investors for long term income generating purposes are sold. The mechanism for "sharing the upside" varies. But one approach is to sell the property to an affordable housing land trust at fair market value. The land bank then owns the land in perpetuity and sells the structure to a low-to-mid income buyer at a cost naturally below the full fair market value. Terms can also potentially include long term renters receiving a down payment credit when properties they rent are sold.

Land Banking – a strategy used to tie up a keystone property, particularly in a supply-constrained market. This enables mission aligned family foundations to buy time needed to work with community leaders to help source affordable housing non-profits and developers that can create and finance a workable project development plan. The mission aligned investor can then resell the property at fair value, with the expectation of realizing a market return on investment as well as the original investment capital.

Deep Green Development – family foundations are well-suited for supporting affordable real estate projects that embed green building features like energy efficient materials including HVAC, lighting and solar energy systems. These features are becoming more affordable, and in some cases, on par with the cost of traditional materials and components. Foundation investments can help drive market adoption rates of green technology, further demonstrating the economic viability of green development.

HOW FOUNDATIONS CAN INVEST IN AFFORDABLE HOUSING

Develop a small project by yourself. Then, engage a nonprofit affordable housing agency to manage the property according to the affordability criteria deemed most appropriate for your project.

Invest in concessionary return equity or debt. A full market rate opportunity does not always pencil when renting to very low-income tenants.

Bridge financing and land banking. Donate or lock up property today that you can redevelop later in partnership with low income housing non-profits, public agencies, economic development agencies and similar community organizations.

Market-return equity or debt. Invest in projects that include a mix of market rate and workforce housing combined with government programs to support the market return of the affordable housing unit component.

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[11] https://www.hud.gov/program_offices/comm_planning/affordablehousing/

Raise Your Voice

Engaging as A Shareholder to Influence Corporate Change

As stewards of capital, corporations have a profound impact on society. Their decisions shape local communities and global economies as well as the built and natural environment. However, not all corporations have ethical or transparent social and environmental practices, and this can leave many investors confused about what to do with investments that run counter to their values. For example, a family foundation whose grantmaking supports sustainable farming initiatives might also hold stock in large factory farms or food companies. Rather than simply divest from these companies, shareholders have other tools in their toolset to influence corporate decision-making. An active shareholder can have immense power in creating sustainable corporate change by filing shareholder resolutions and speaking out against poor practices.

As a primer for those who are interested in engaging as a shareholder, this article will briefly explore: (i) what shareholder resolutions are; (ii) how resolutions can be an effective tool for driving positive social or environmental change; and (iii) examples of how our clients have engaged through shareholder resolutions to positively influence the direction of corporate activities. Lastly, we have provided a sample shareholder letter from As You Sow – an organization that works directly with investors and groups of shareholders to unify voices for sustainable change via resolutions, proxy voting and more.

SHAREHOLDER RESOLUTIONS

For decades, shareholders have engaged publicly-traded companies to influence their decision-making process. Engagement often begins through informal channels, such as dialogue with management, investor letters and media campaigns. If company management opposes these efforts, shareholders who own a minimum of $2,000 of company stock for one year can file or co-file a resolution. This resolution is then voted on by other shareholders in a bid to influence company decision making.

Having modest eligibility requirements allows all shareholders – regardless of size – to engage the companies that steward their capital. Large activist fund managers have undertaken multi-year engagement campaigns around environmental and social issues on behalf of clients. At the same time, we also work with individuals and families who, rather than going through an intermediary, wish to selectively and directly engage companies on issues that are important to them.

USING SHAREHOLDER RESOLUTIONS TO DRIVE CORPORATE CHANGE

An open, democratic shareholder process allows investors to illuminate long-term risks that may be overlooked in a market driven by short-term performance. Following a wave of corporate scandals in the early 2000's, shareholders filed resolutions to prevent corporate fraud, demanding independent auditors, independent boards, and revising executive compensation to discourage short-term thinking at the cost of long-term value creation. Shareholders are now expanding their definition of sound corporate governance to include social and environmental issues like diversity, fair labor practices, and sustainable resource management.

These shareholders recognize that environmental and social risks are also financial risks.

In 2017 corporate shareholders everywhere filed 69 resolutions focused on carbon risk. (Source: As You Sow.) The logic underpinning these resolutions is that in a world where catastrophic climate change has moved from a concept to a reality, companies that can effectively assess and manage climate change related risks are better positioned to outperform over the long term.

The concept that companies should manage toward better social and environmental outcomes appears to be taking hold. A landmark 2015 climate risk proposal received 98% of votes at BP after company management recommended votes in favor.[12] This is notable considering that resolutions often receive no more than 20% of votes.

Shareholder Resolution Case Studies from Threshold Group

Greenhouse Gas Emission Disclosure: In August 2016, a large foundation with assistance from their investment advisor team co-filed a resolution against Emerson Electric company. At the time, the company lagged many of its peers which had adopted robust greenhouse gas emission reduction targets. The resolution urged the electric company to adopt company-wide goals around reducing total greenhouse gas emissions and to issue a report on its plans to achieve these goals. Results for this resolution are currently pending. More information can be found here.

Use of Antibiotics in Food: In November 2015, a family office with guidance from their investment advisor and organizing help from non-profit shareholder activism group, As You Sow, worked to co-file a resolution against a prominent fast food chain. The resolution requested the company prohibit the use of antibiotics in their meat supply chain (except for purposes other than disease treatment). Results are pending.

Political Lobbying: In August 2016, a large foundation consulted with Threshold Group and worked to co-file a resolution against a multinational information technology company. From 2010-2015, the company spent approximately $80M on federal lobbying. The amount the company spent on non-federal lobbying is unknown. The resolution calls for the company to annually disclose the company's lobby policy, total lobbying payments and a description of the decision making and management process. Results are pending.

[12] http://learnings.thresholdgroup.com/shared-learning/blogs/shareholder-rights-in-the-balance#_ftn1

BEING AN ACTIVE SHAREHOLDER AND HOW YOUR ADVISOR CAN HELP

Not all impact investing is determined by the stocks that you hold in responsible companies or the divestments you make from irresponsible ones. Impact investing is also about creating change in the companies in which you share even a small ownership stake. Wealth advisors specializing in mission aligned investing can help you develop strategies to elevate your voice within these companies in order to increase transparency, create better environmental policies, develop responsible labor standards and more. Wealth advisors who can help you develop a shareholder engagement strategy might start with these following questions:

- *Do you have stocks in your portfolio that are available for proxy voting? Do these stocks represent companies that are negligent or lack transparency in corporate social and environmental responsibility?*
- *If you are not voting your proxy vote, who is? What are the guidelines by which they are voting and are these guidelines in line with your values?*
- *Do you wish to engage a corporation privately?*
- *Do you wish to participate in filing resolutions and co-resolutions? Do you wish to engage organization like As You Sow in order to engage in dialogue between corporate managements and other aligned shareholders?*

Not all wealth advisors will be able to assist their clients in developing a strategy for Shareholder Engagement. To learn more about choosing an advisor that can help elevate your voice – see Chapter 6 of *Impact Assets Handbook for Investors on Choosing Your Impact Investment Advisor*.

WHAT DOES A SHAREHOLDER RESOLUTION LOOK LIKE?

Below is an active resolution filed by As You Sow a non-profit organization that works directly with investors and groups of shareholders to unify voices for sustainable change via resolutions, proxy voting and more. This information and the progress of resolutions can be tracked on their website: https://www.asyousow.org/our-work/current-resolutions/

AS YOU SOW

2017 Shareholder Resoution
Emearon Electric
Request: GHG Targets

RESOLVED: Shareholders request Emerson Electric adopt time-bound, quantitative, company-wide goals for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement, and issue a report at reasonable cost and omitting proprietary information on its plans to achieve these goals.

SUPPORTING STATEMENT:

In December 2015, representatives from 195 countries adopted the Paris Climate Agreement, which specifies a goal to limit the increase in global average temperature to well below 2℃ above pre-industrial levels and pursue efforts to limit temperature increases to 1.5℃. In order to meet the 2-degree goal, climate scientists estimate it is necessary to reduce global emissions by 55 percent by 2050 (relative to 2010 levels), entailing a US reduction target of 80 percent.

Noting government action and policy shifts ensuing from these commitments, BlackRock, the world's largest asset manager, has stated that "climate change risk has arrived as an investment issue" and that "regulatory risks are becoming key drivers of investment returns."

Over half of S&P 500 companies have set GHG emissions reduction targets, including several of Emerson Electric's peers:

- Rockwell Collins: reduce greenhouse gas emissions intensity by 30 percent by 2022 compared to a 2008 baseline.
- Honeywell: reduce greenhouse gas emissions intensity by 10 percent from 2013 levels. This is Honeywell's third goal, having already met previous goals to reduce GHG emissions intensity by 15 percent from 2011 levels. Furthermore, the company reduced total GHG emissions by 30 percent and improved energy efficiency by 20 percent between 2004 and 2011.
- ABB: reduce energy intensity by 20 percent by 2020 from a 2013 baseline.

As a critical element of their GHG reduction goals, several peers also seek to improve energy efficiency. For example, Honeywell reports in its 2015 CDP response that it has projects related to energy efficiency underway that will result in annual savings exceeding $8 million, all with payback periods of 3 years or less.

Research affirms that investments in energy efficiency are usually profitable and low-risk while offering an effective way to reduce GHG emissions and manage volatile energy costs.

In 2013, CDP found that four out of five companies earn a higher return on carbon reduction investments than on their overall corporate capital investments, and that energy efficiency improvements earned an average return on investment of 196%, with an average payback period between two and three years. Money saved from energy efficiency can be reinvested into the business, benefiting shareholders.

While Emerson Electric's products help its clients reduce energy usage and climate impacts, our company has not publicly set GHG emissions reductions targets for its own operations. By not setting and pursuing GHG reduction goals, Emerson may not achieve the benefits realized by its peers—a competitive disadvantage for the company and shareholders alike.

Last year, 37% of shares (excluding abstentions) voted in favor of this resolution, a substantial level of support that management should not ignore.

NEXT STEPS

We are encouraged by the growing conviction within the business community that good social and environmental practices are simply good business practices. In a recent report from Bank of America, Savita Subramanian, head of U.S. Equity and Quantitative Strategy at BofA Merrill Lynch Global Research wrote,"I've been a quantitative analyst for 20 years, and I've never seen anything as effective as ESG characteristics when it comes to anticipating future earnings and volatility of U.S. corporations."[13]

For families and family foundations, the first step to becoming an active shareholder is to learn more about the companies that you are invested in. Ask your advisor to unpack your investment portfolio and to help single out the corporations with poor social or environmental practices. For some, this discovery could lead to radical divestments, and for others, this could lead to conversation about improving business, increasing transparency and mobilizing positive change. Fortunately, these are changes that lead to sound business sustainability and longevity – improving outcomes for workers, consumers, owners and shareholders alike.

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[13] https://about.bankofamerica.com/en-us/what-guides-us/esg-interview-savita-subramanian.html#fbid=NpNhqURDA20

Resources from the National Center for Family Philanthropy on Impact Investing

Friends of the Family can access the Impact Investing featured search at ncfp.org for articles, case studies and family stories about impact investing.

https://www.ncfp.org/knowledge/curated-lists/impact-investing.html

About the National Center for Family Philanthropy

The National Center for Family Philanthropy (NCFP) is the only national nonprofit dedicated exclusively to families who give and those who work with them. We provide the resources, expertise and support families need to transform their values into effective giving that makes a lasting impact on the communities they serve. Together, we make great things happen.

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We offer special thanks to our Leadership Circle members and to Friends of the Family, our annual contributors who make it possible for NCFP to produce important content for the field. We also express our deep gratitude to the family foundations that agreed to share their stories in this paper. For information about becoming a Friend of the Family, email ncfp@ncfp.org or call 202.293.3424.

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If you have comments, questions or suggestions for a future edition of *Passages*, contact: ncfp@ncfp.org.

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