



Fundamentals of Program-Related Investing

www.primakers.net

PRIMakers Network National Conference
May 10 -12, 2010 • Chicago, IL



Topics of Presentation

- Definitions
- Benefits of PRIs
- Getting Started
- Developing a PRI strategy
- Resources

Defining PRIs



Program-Related Investments

- Make foundation funds available for charitable purposes (like grants)

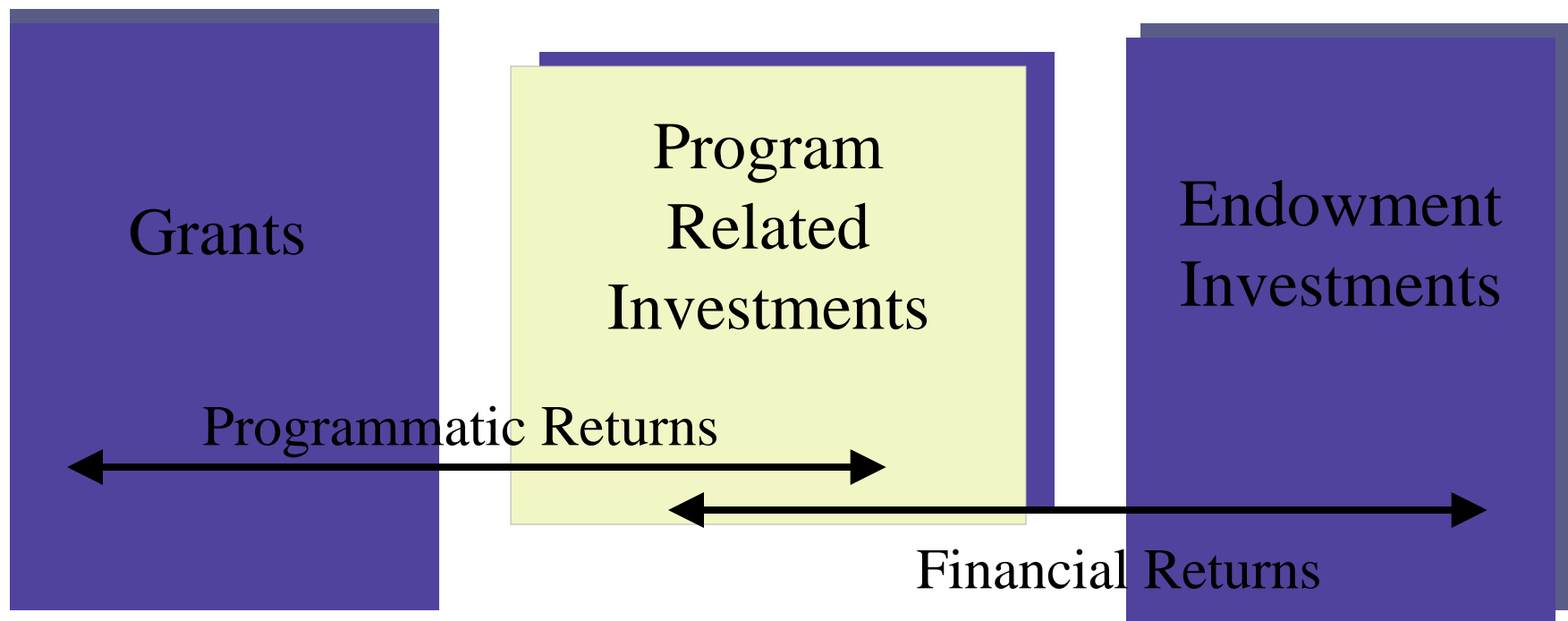
but

- Generally come back to the Foundation, with some interest (unlike grants)

and

- Can never be made for the primary purpose of financial gain (unlike regular Foundation investments)

Foundation Perspective: Investment Tools

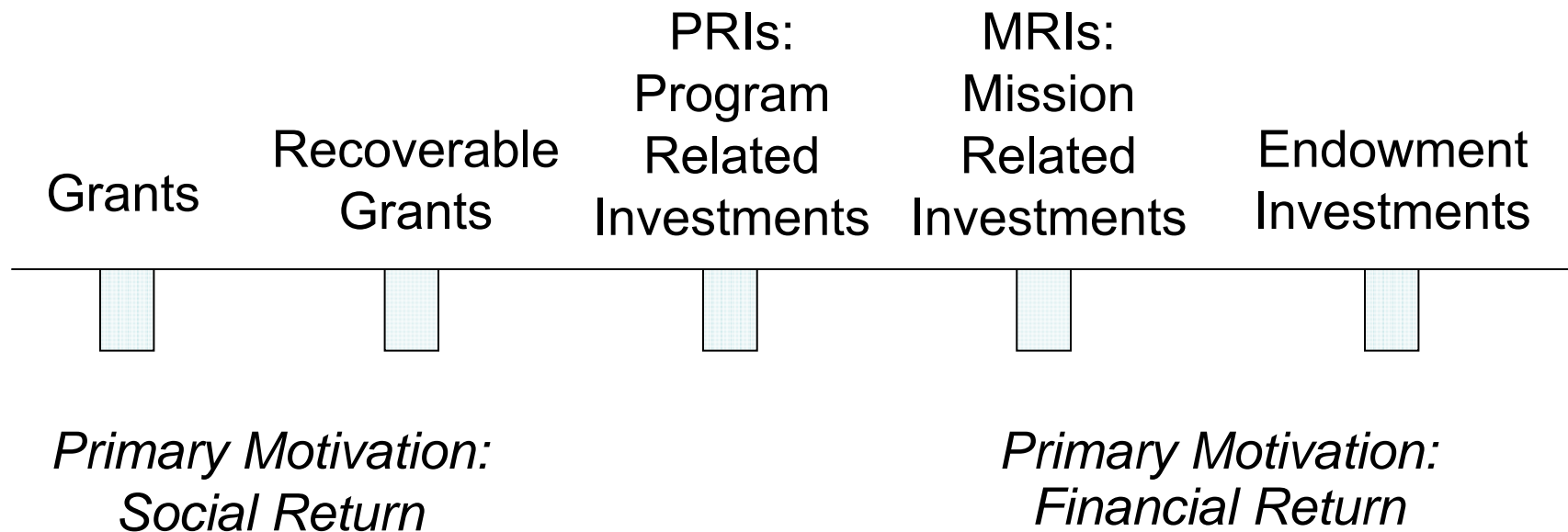


Definitions

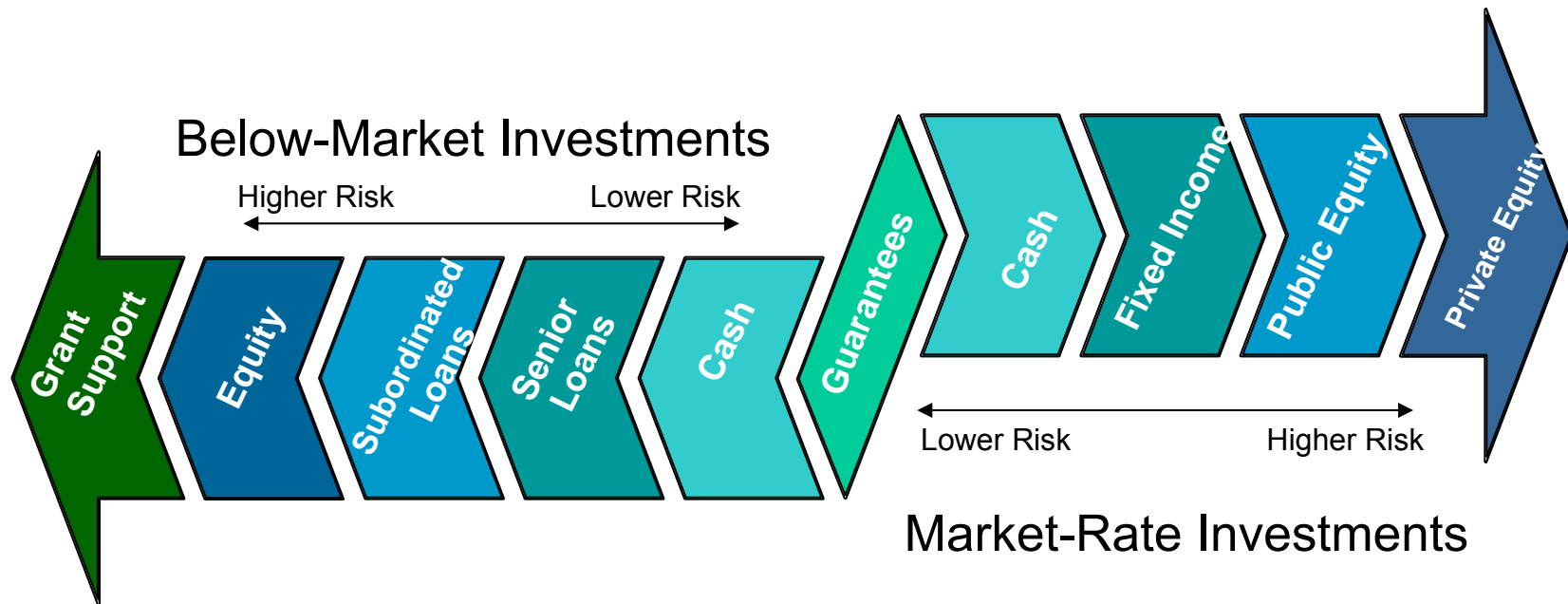
- PRIs only category with a legal IRS definition
 - Primarily to achieve program goals
 - Terms must be below market on a risk-adjusted basis
 - Does not support lobbying
 - Must be investigated, documented and monitored

- Foundations may make other charitable investments that don't qualify as PRIs
 - Financial return primary or equal goal with social return
 - Emerging philosophy of using all (or more) assets to support mission
 - Terms may include: social, mission, impact investing, DBL/TBL

New Philanthropic Investing Continuum

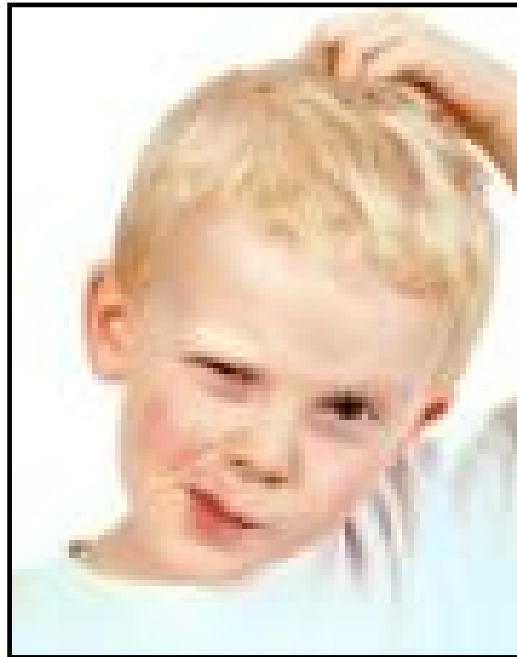


Social Investment Asset Class Continuum



Source: F.B. Heron Foundation Mission-Related Investing Continuum

Why PRIs?



Strategic Benefits

Stakeholder	Strategic Benefits
Foundation	alignment with mission, recyclable funds, size, leverage, payout, feasibility, learning
Investee	access to capital, feasibility, establishes credit, builds managerial capacity, scale and sustainability, leverages other funding, collaborative relationship with investor(s)
Society/ Market	market development /innovation; creates new markets; policy catalyst; efficient use of charitable resources; accountability in social sector; sustainable organizations

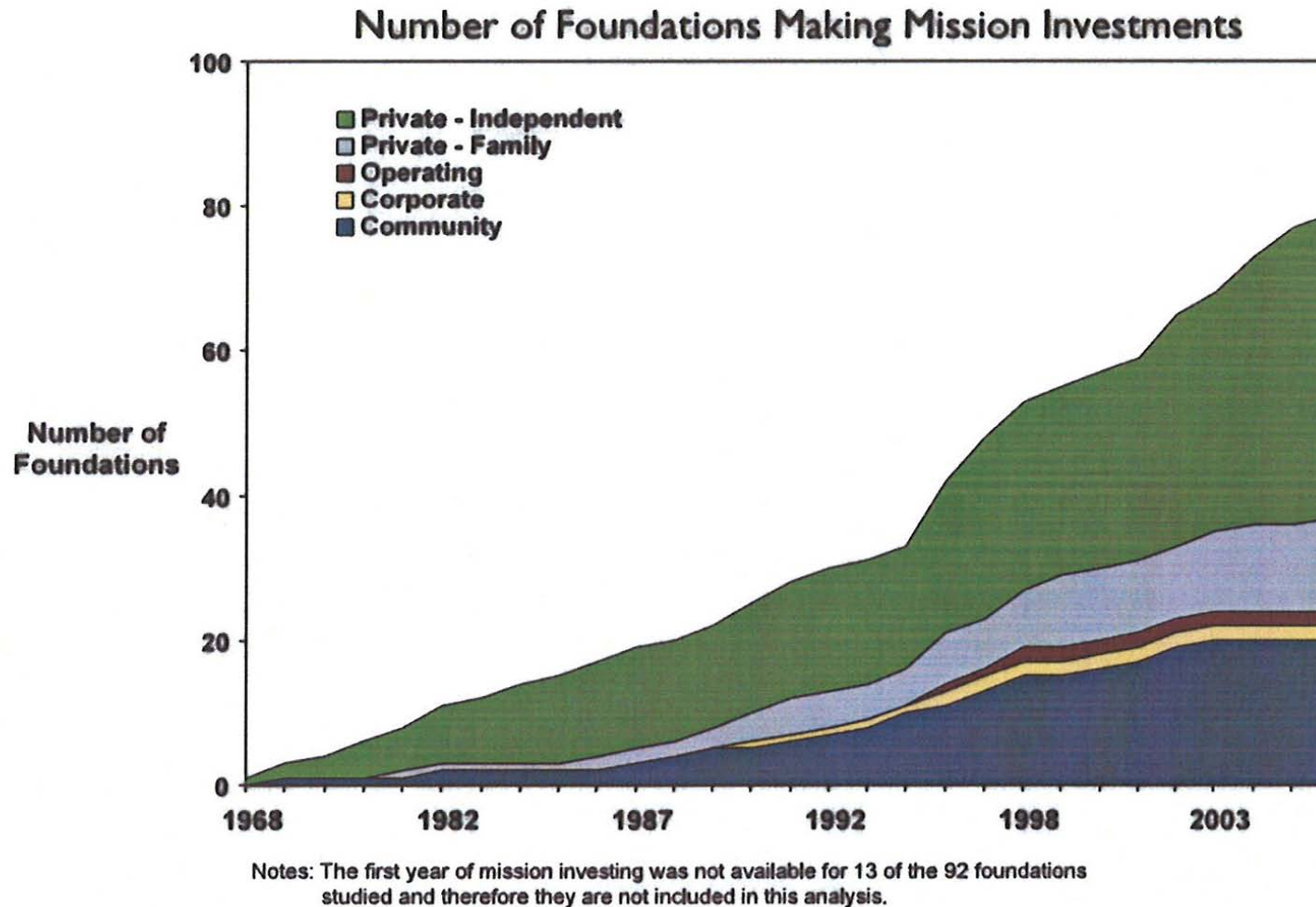
The Downside

- Can be complex and time consuming
- Requires programmatic and financial skills
- Customized deals require significant allocation of staff time
- Legal fees and other transaction costs
- Negotiations and structuring potentially adversarial
- Social impact difficult to measure/ quantify
- Long-term reporting and monitoring

Who Uses PRIs?

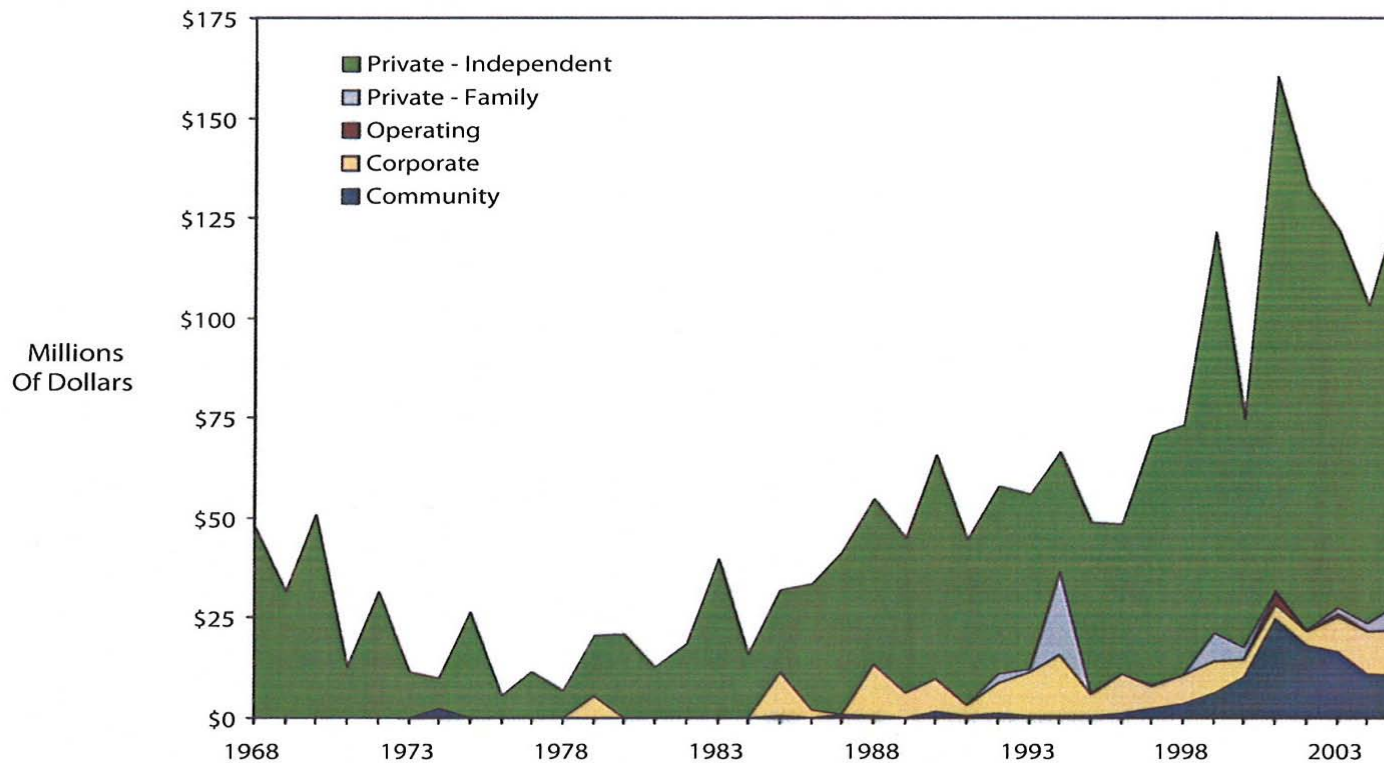
- 320 + PRI uses reported
 - From adoption to pharmacology to wildfire
- Recipients in 45 US states and 37 other countries
 - From Alabama to Wyoming and Brazil to Yugoslavia
- Many types of PRIs
 - Loans, equity investments, lines of credit, linked deposits, real estate purchases, guarantees

Small Number of Foundations Are Making Social Investments



Annual SI Volume Growing But Still <\$200 Million

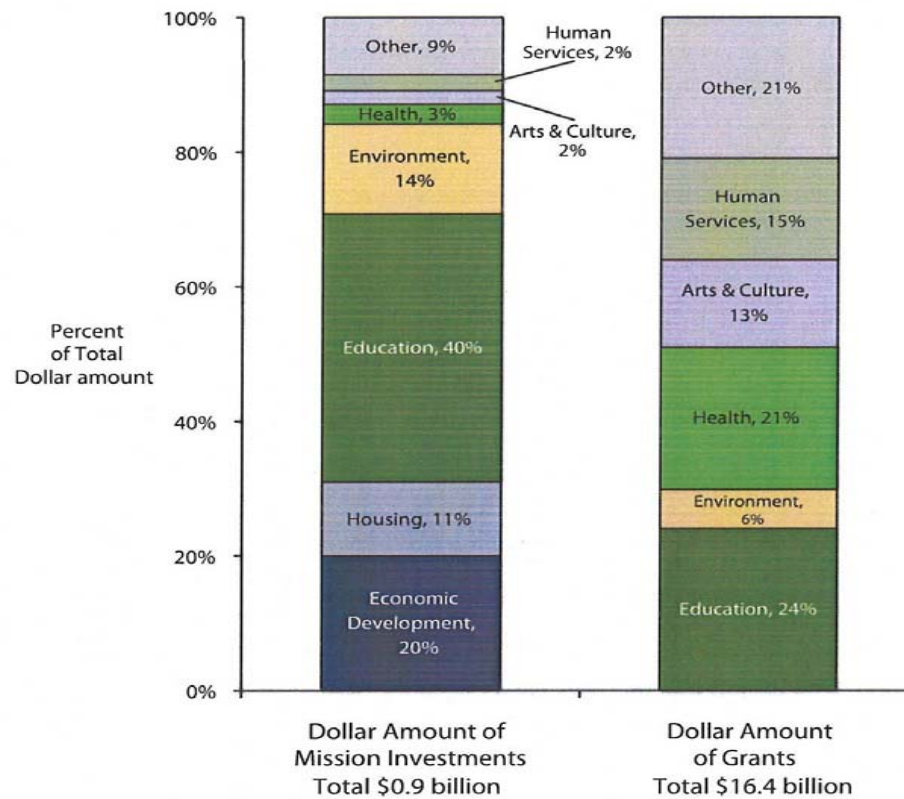
Dollar Amount of New, Committed Mission Investments Per Year
By Foundation Type in Constant 2005 Dollars



Notes: In constant 2005 dollars based on annual average CPI, all urban consumers as reported by the U.S. Department of Labor. To avoid major swings due to periodic investments, one foundation's infrequent and large equity investments are not included in this trend analysis. The first year of mission investing or the foundation size was not available for \$120 million of investments and therefore is not included in this analysis.

SI Program/Issue Areas

Comparison of Issue Areas Addressed by Mission Investments (2001-2005) Versus Grants (2005)



Note: 2005 grant data for all foundations is from Foundation Center's Foundation Giving Trends (December 2006) based on all grants of \$10,000 or more awarded by 1,154 of the largest foundations; grant data does not have Economic Development or Housing categories.

How PRIs Affect Payout Requirement

- Can be made from program budget or endowment
- Counts toward 5% payout requirement the year the PRI is paid
- When PRI is repaid, qualifying distributions are reduced
 - Considered a recovery and increases required distribution
- PRIs are not included in net value of non-charitable use assets

PRIs on Financial Statements and General Ledger

- Income on PRI adds to general revenue
- All PRIs booked same as any other investment @ fair market value
 - Can list PRIs as a separate asset line on balance sheet
- Can provide additional PRI details in a separate footnote
 - May be required to disclose and record loan guarantees if they meet the contingent liability rules

PRIs Reported on 990-PF Tax Return

- Shows on balance sheet section (Part II)
 - Special section (Part IX-B) *Summary of Program-Related Investments*
- Included in payout section on qualifying distributions (Part XII)
 - Recoveries are included in distributable amount computation (Part XI)

PRIs and Expenditure Responsibility

- Some PRIs subject to ER reporting
 - ER rules apply to both PRIs and grants
- PRI proceeds and earnings must be kept in separate account by investee organization
 - Resources
 - Expenditure Responsibility Step by Step, John A. Edie
 - Program-Related Investments: A Technical Manual for Foundations, Christie I. Baxter

Getting Started

Aligning with mission and values

- Utilize more assets towards mission
- Increase leverage and impact
- Avoid conflicts of investments and grantmaking

Getting Started

Convincing Key Stakeholders

- Address barriers
- Achieve buy-In
- Determine
 - Program/mission goals
 - Risk Tolerance

Developing a Strategy

Key Strategy Decisions

- Area(s) of focus
- Types of investments (asset class)
- Partnerships/collaboration
- Direct or intermediary investments

Implementing Process and Staffing

- Policies and Procedures
 - Due diligence
 - Approval
- Staffing
 - Program
 - Financial/investment
 - Legal
- External Relationships

Social Investing Resources

- More for Mission Campaign: www.moreformission.org
- PRI Makers Network: www.primakers.net
- Global Impact Investing Network (GIIN):
http://www.rockfound.org/efforts/impact_investing/impact_investing.shtml
- Foundation Center: www.fdncenter.org (PRI Directory)
- Grantcraft: www.grantcraft.org (PRI grantcraft guide)
- Social Investment Forum: www.socialinvest.org
- Council on Foundations: www.cof.org (Resources for Grantmakers)
- Investor's Circle: www.investorscircle.net

Social Investing Resources

- Boston College Institute of Responsible Investment: www.bccccc.net (handbook of asset classes)
- Cambridge Associates Mission Investing Group: www.cambridgeassociates.com
- FSG Social Impact Advisors: www.fsg-impact.org (mission investing study)
- Monitor Institute: www.monitorinstitute.com (Investing for Social & Environmental Impact report: www.qk18ad7x79.web.aplus.net)
- Opportunity Finance Network: www.opportunityfinance.net (CARS rating system)
- Rockefeller Philanthropy Advisors: www.rockpa.org (trustee handbook)
- Foundations with SI experience