

INVESTING WITH IMPACT

INNOVATIVE APPROACHES *TO*
INVESTING *WITH* IMPACT *IN* ST. LOUIS



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The views expressed in this report are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

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INTRODUCTION

Investors are increasingly interested in ensuring that their investments align with their values. Investors ranging from fund managers, financial institutions and banks, private foundations and pension funds to religious institutions and individual investors are pursuing impact investing, the continuum of investment strategies that aligns financial returns with a specific social or environmental mission. Despite the common belief that impact investing delivers lower financial returns, benchmarks suggest that financial performance can match that of traditional investments. For example, the MSCI KLD 400 Social Impact Fund—an index of 400 U.S. securities with outstanding environmental, social and governance (ESG) ratings—has outperformed the S&P 500 on an annualized basis since 1990.¹

Impact investment is attractive to many social ventures because it enables them to access traditionally unavailable sources of capital, like venture capital and angel investments, enabling scale and impact.² However, the potential for impact investing and innovative philanthropic funding, particularly in St. Louis, is currently untold and underutilized. Place-based impact investing often centers on the use of community development financial institutions (CDFIs) as key examples of impact investing in practice. At the same time, CDFIs are often marginalized by advocates of impact investing due to a focus on debt and debt-like investments.

One of today's biggest barriers to engagement in impact investing in St. Louis is a lack of awareness of the opportunities for impact investing.³ This paper provides an overview of current impact investing throughout St. Louis and national trends, to provide guidance to local foundations, endowments, institutional investors, individuals and traditional philanthropists interested in impact investing.

The St. Louis region can greatly benefit from accelerating an impact-investing movement that

encourages and supports sustainable social impact. Focusing financial resources in a community-driven and equitable manner can provide new resources in addressing the region's complex problems. The Ferguson Commission specifically recommends the St. Louis business and philanthropic communities build the capacity of and invest in high-functioning CDFIs to "remove barriers keeping many individuals from engaging with traditional banking infrastructure" and to "support community-based investments, financial literacy, increased banking and access to financial tools designed to promote economic mobility."⁴ In addition, The Ferguson Commission recommends St. Louis' philanthropic and business communities create a 25-year managed fund to support racial equity across sectors.⁵

St. Louis has the potential to grow and sustain meaningful impact investing because of its foundations, the strong relationships within the philanthropic community, and the potential to tap into local hospital systems, corporations and anchor institutions, like religious foundations and university endowments, as investors.⁶ These efforts thus far, however, have centered on partnerships, often between a single foundation or bank and a CDFI. There is a growing opportunity for collaborative action and standardization of terms to make impact investing more accessible. ■

ENDNOTES

- 1 Morgan Stanley Institute for Sustainable Investing, 2015.
- 2 Gripne et al., 2016.
- 3 Dubin, n.d.
- 4 The Ferguson Commission, 2015, p. 133.
- 5 The Ferguson Commission, 2015.
- 6 Desai-Ramirez, 2018; Desai-Ramirez and Johnson, 2018.



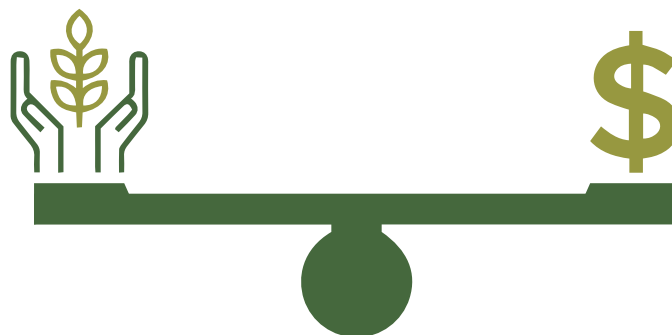
AN IMPACT-INVESTING FRAMEWORK

Innovative approaches to impact investing are changing the routes by which capital is deployed for impact. Socially responsible investing (SRI) or ESG screens and the deployment of debt capital through nonprofits and social enterprises to catalyze impact have a long history in the United States and abroad. New innovations offer routes for capital to be deployed in new forms such as convertible notes, quasi-equity debt and equity.

Fundamentally, the way that impact investing must be measured is by balancing financial and social returns. There are numerous ESG-oriented public equity and bond funds, private equity and credit portfolios, and even venture capital firms that deliver strong returns while divesting from businesses considered socially or environmentally harmful. Deep impact often requires concessions through more-patient capital and below-market-rate returns. Vehicles for investment in underserved communities often operate using innovative practices developed from local knowledge and experience, such as the development of alternative methods of underwriting and measuring credit worthiness. While these practical innovations may reduce risk, concessions are still often necessary.

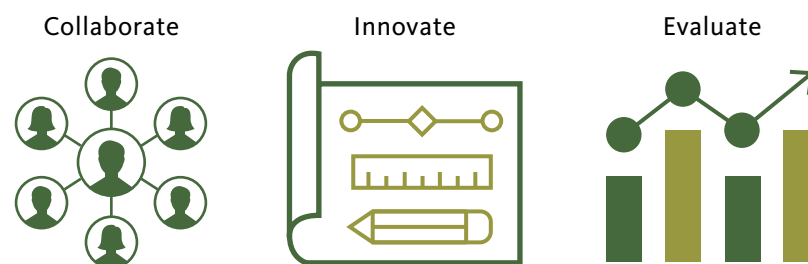
This reality creates a challenge for both organizations seeking investment (investees) and investors. As identified by former Opportunity Finance Network CEO Mark Pinsky, organizations seeking investment are private-sector enterprises that are catalyzed by government programs and foundations

Investor Challenge



SOURCE: Washington University in St. Louis

Investee Challenge



NOTES: Organizations seeking investments are competing for investors. Through the use of entrepreneurial practices—such as collaboration, prototyping, evaluation and continuous improvement—organizations can provide the strongest combination of financial and social return possible.

SOURCE: Washington University in St. Louis

but do not serve as extensions of them. Concessionary private-sector investment enables organizations to pass on savings on cost of capital to communities served.⁷ At the same time, sustainable scale requires that investment-seeking organizations innovate, evaluate and evolve to provide the highest level of social and financial returns possible. Investment concessions are often garnered by investment-seeking organizations through social impact validated through evaluation and reputation.

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Public Equity

Socially responsible investing is an impact-investing strategy with the potential for market-rate returns. It is also the least direct strategy on the continua. Implementing SRI entails screening public equity investments for ESG factors to intentionally include (positive screening) or exclude (negative screening) from one's investment portfolio. SRI is largely conducted through structured, pooled investment products that mirror the competitive long-term returns of traditional market indexes. While investors interested in SRI can place their money directly into mutual funds, many institutional investors choose to work with portfolio managers who conduct positive and negative

ESG screenings on their behalf.

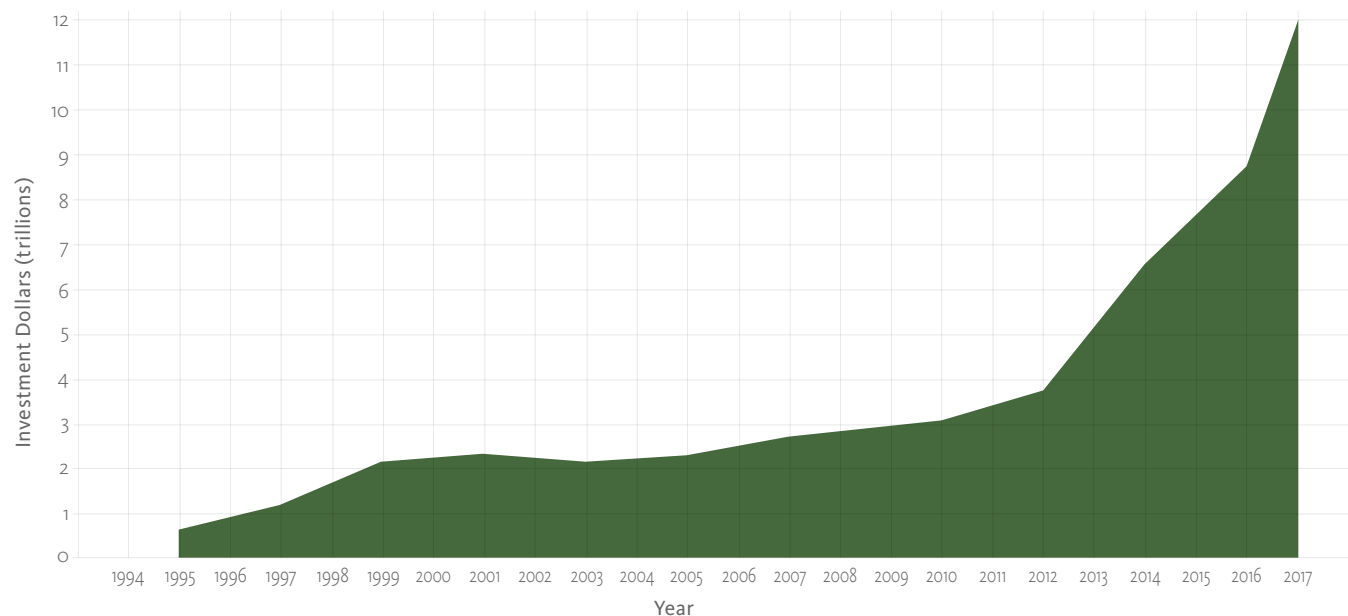
As of 2016, SRI accounts for 33 percent of total assets under professional management in the United States, representing \$8.7 trillion.⁸ This investment strategy has paid off for its adopters. Over time, SRI index funds have outperformed traditional U.S.-based mutual funds and have experienced lower volatility on both an absolute and risk-adjusted basis across asset classes.⁹

Within public equity investments, another means of impact investing is shareholder advocacy. In this process, investors purchase enough stock in a public company that they can influence the corporation's internal policies regarding ESG-related activities, like diversity, sustainability and corporate social responsibility.

Private Equity

Among the strategies of impact investing, private equity represents the most diverse opportunities for how to use an organization's or individual's capital. Like with public equity, money can be invested in private equity funds that specifically target issues like financial inclusion, employment, community and economic development, agriculture, health care or education. These funds can target either market-rate or below-market-rate returns, depending on the investors' preferences and willingness to assume risk. A sample of 51 socially or environmentally focused private equity funds, called the Impact Investing Benchmark, outperformed conventional private equity funds from 1998 to 2004.¹⁰

Growth of Environmental, Social and Governance Screening as an Investment Strategy



NOTES: The plot of sum of investment dollars (trillions) for year

SOURCE: US SIF, The Forum for Sustainable and Responsible Investment

Private capital can often be incentivized through the establishments of loan loss reserves and guarantees. These offerings reduce risks and enable capital to flow to riskier investments. Impact investors then serve as providers of catalytic capital that enables social ventures and underserved markets to access more traditional capital streams. For example, in deploying catalytic first-loss capital, an investor designates itself as the party that will bear the first loss as a means of improving the terms of other capital investments, like equity and subordinated debt.¹¹

Overall, the adoption of impact investing benefits both traditional philanthropic funders and traditional investors. By recycling and receiving a return on investments in particular programs, foundations and donors can generate a greater and longer-term impact. In addition, the allocation of relatively small amounts of capital toward innovative philanthropic funding from large investor portfolios does not meaningfully increase the risk or decrease the rate of return of an investment portfolio.¹²

Fixed-Income Investments

Impact investors can also deploy money into mission-driven organizations through fixed-income financial instruments such as loans, bonds, certificates of deposit and cash accounts. Fixed-income impact investments are used globally but are often direct investments with a focus on specific geographies and/or social sectors. Fixed-income impact investments oftentimes serve communities and organizations that are difficult to serve within the traditional financial system. Investors may offer below-market terms or greater flexibility, or utilize local knowledge and alternative forms of due diligence.

Investors may choose to offer loans directly to organizations. Many investors, however, choose to utilize an intermediary. Intermediaries may offer due diligence, legal oversight, risk management, insulation from daily management and the possibility of collecting on nonperforming loans. ■

ENDNOTES

7 Pinsky, 2012.

8 US SIF Foundation, 2016.

9 Morgan Stanley Institute for Sustainable Investing, 2015.

10 Matthews et al., 2015.

11 Bouri and Mudaliar, 2013.

12 Agnew, 2017.

SPOTLIGHT ON THE IMPACT INVESTING BENCHMARK

Cambridge Associates' Impact Investing Benchmark provides comprehensive information on private investment financial statements, performance metrics and, ultimately, financial returns. Each of the investment vehicles analyzed serves as an investment opportunity for large-scale investors, like foundations, endowments and pension funds. The current Impact Investing Benchmark provides data for funds in private equity, venture capital and real assets.



“Place-based work is the new frontier.”

— Diego Abente, president of International Institute Community Development Corporation¹³

PLACE-BASED IMPACT INVESTING *IN* ST. LOUIS

The place-based impact-investing ecosystem in St. Louis includes the investments of foundations, banks, tax credit investment firms and individual investors placing capital through CDFIs for deployment to industry sectors that are often difficult to finance through market-rate investments. Emerging forms of impact investing are also coming out of venture capital and direct public offerings.

Community Development Financial Institutions

As an official designation by the U.S. Department of the Treasury, CDFIs are loan funds, banks, credit unions and/or venture capital funds dedicated to community development and providing financing and technical assistance to people and institutions traditionally unable to access mainstream sources of capital. Currently more than 1,100 institutions nationally are certified as CDFIs. In 2018, 303 CDFIs received funding through at least one CDFI Fund program. CDFIs provide direct placement of capital and importantly serve as intermediaries for foundations, traditional banks, and other institutions interested in impact investing. CDFIs can mitigate the financial risk of impact investing by using investors' money over a diversified portfolio of loans, providing professional risk monitoring and holding loan loss reserves.¹⁴ CDFIs also insulate investors from fund management and the collection of nonperforming loans.

This section provides an overview of place-based funding undertaken throughout St. Louis and the types of organizations involved. Profiles of many of the individual organizations across sectors are featured within Appendix I.

The eight CDFIs represented in the St. Louis CDFI Coalition—all loan funds or credit unions—hold over \$480 million in assets and include 1st Financial Federal Credit Union, Alliance Credit Union,

CDFI End User



Affordable
Housing



Schools



Small Businesses



Medical
Facilities



Car Loans



Healthy Food

NOTES: Investments in CDFIs from banks, foundations, individual investors and the government are deployed to places, populations and sectors often underserved by the mainstream financial system. This often includes affordable housing, nonprofits, schools, community facilities, small businesses and micro-enterprises, car loans, healthy food and sustainability.

SOURCE: Washington University in St. Louis

Gateway CDFI, IFF, International Institute Community Development Corporation, Justine PETERSEN, Rise, and St. Louis Community Credit Union. These organizations offer a continuum of sustained investment options for local individuals and businesses from underserved areas and partner with stakeholders to raise awareness of their services.¹⁵ In addition, these institutions were specifically highlighted by The Ferguson Commission for their work to enhance economic and racial equity throughout the St. Louis region.¹⁶ A focus on CDFIs as critical part-

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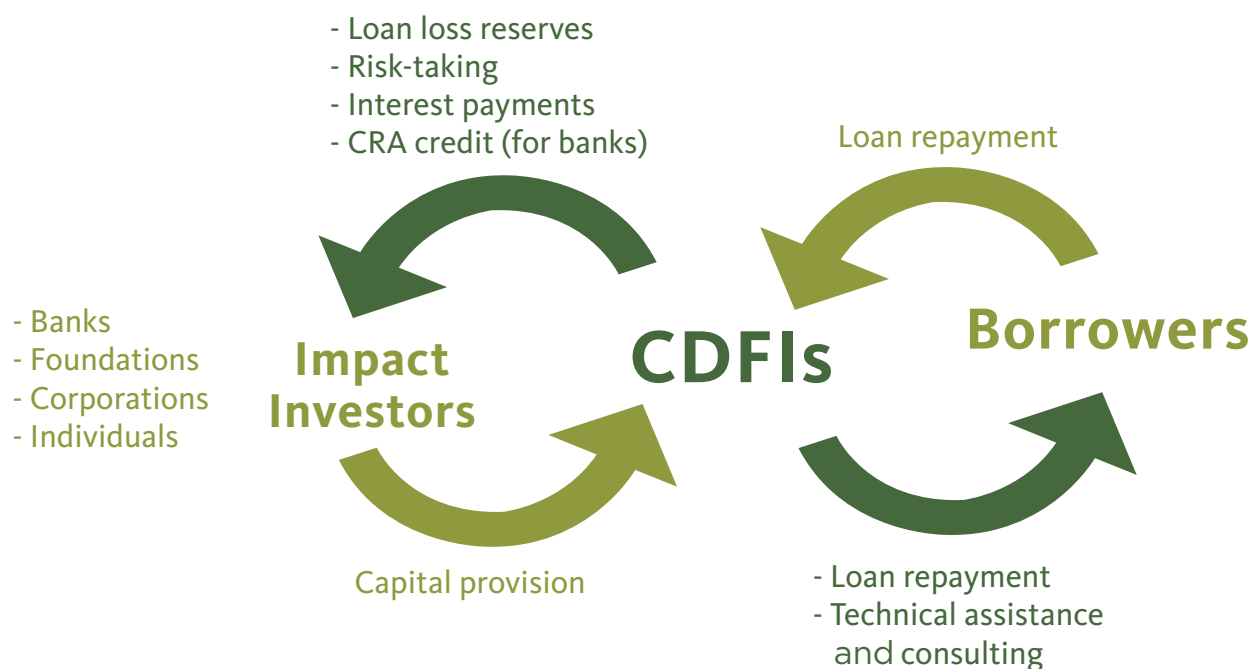
ners for impact investing is not unique to St. Louis. Nonprofit Finance Fund CEO Anthony Bugg-Levine described CDFIs as “poised to be an important partner for impact investors, bringing their decades of knowledge in financing the organizations that tackle social issues.”¹⁷ Appendix I features an overview of the CDFI ecosystem in St. Louis and individual activities of various organizations. ■

ENDNOTES

- 13 Abente et al., 2018.
- 14 Philanthropy Northwest, 2017.
- 15 Donovan, 2018.
- 16 The Ferguson Commission, 2015.
- 17 Kuhlman and Ashburn, 2018.

Banks

Two pieces of legislation passed in the 1970s created strong pressure within chartered banks to ensure capital flows into low- to moderate-income neighborhoods through direct lending and the placement of capital through CDFIs. The 1975 Home Mortgage Disclosure Act requires lending institutions to publicly report loan data, thereby creating an opportunity to identify gaps in lending behavior. The Community Reinvestment Act (CRA) of 1977 created the regulatory expectation that depository institutions such as banks work to meet the credit and depository needs of all communities within their operating areas. Depending on their characteristics, banks are regulated by the Office of the Comptroller of the Currency, Federal Reserve System or Federal Deposit Insurance Corp. (FDIC). While tests vary based on bank size, intermediary and large banks are tested based on their lending, investments and services. Banks that are rated poorly on these tests may be prevented from opening new branches or ATMs, and acquiring other banks. ▶



SOURCE: Washington University in St. Louis.

CASE STUDY—Bank Partnerships: Parkside Financial and St. Louis Community Credit Union

Parkside Financial Bank & Trust offers commercial banking, trust and family office services to privately held businesses, their owners and operators, and high-net-worth individuals. To support businesses in reaching their greatest potential, the bank provides working capital financing, equipment financing, real estate financing, and other specialty financing, in addition to offering a robust suite of treasury management services. Parkside prides itself on building truly uncommon partnerships with each client and creating sophisticated solutions and powerful results for financial success.

As an intermediary small bank with \$440 million in assets, Parkside must meet the small-business lending test and a community development test pursuant to expectations set forth in the Community Reinvestment Act. After meeting with Paul Woodruff, executive director of Prosperity Connection, a partner affiliate of St. Louis Community Credit Union, Parkside Senior Vice President Joyce Kampwerth reached out to discuss ways for the bank to invest in the work of St. Louis Community Credit Union.

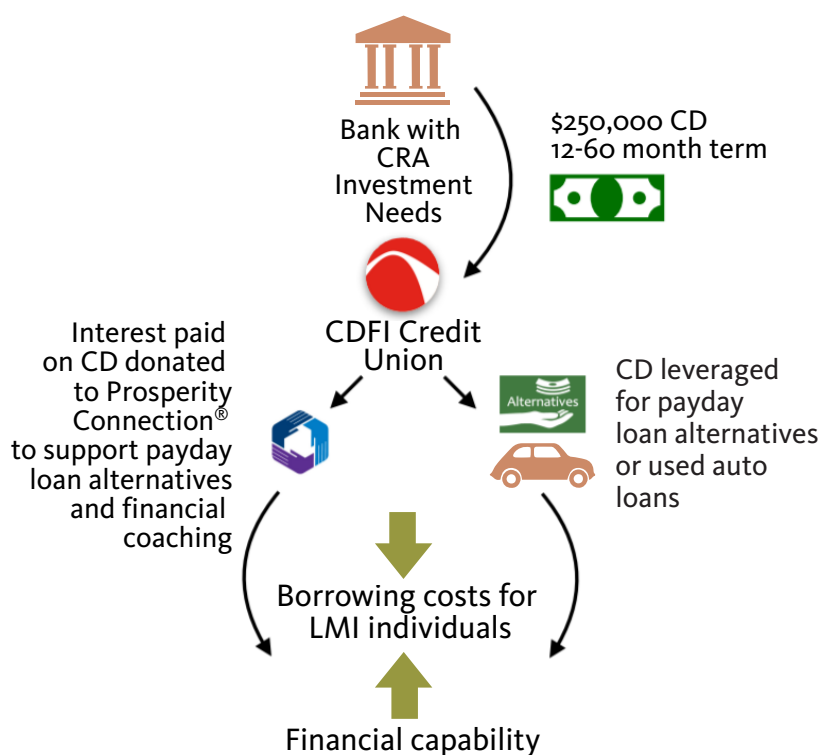
St. Louis Community Credit Union is certified as a CDFI, a

low-income credit union, and one of the largest minority depository institutions in the country, and is able to take deposits from nonmembers. All deposits are insured through the National Credit Union Administration up to \$250,000. Nonmember deposits are used to enhance the lending capacity for the institution.

Parkside and St. Louis Community Credit Union identified a \$250,000 certificate of deposit (CD) as an ideal route of investment. Funds will be used to provide loans in low- to moderate-income communities within St. Louis County. In addition, Parkside committed to donating interest from the CD to Prosperity Connection to subsidize free financial education. Parkside also provides volunteers to support Prosperity Connection staff in credit building and other community development activities.

Parkside's investment enables St. Louis Community Credit Union to access additional funds for community lending. Deposits offer a lower-cost source of capital compared to using short-term debt to finance additional capital.

“Community development finance flourishes when lenders are able to think and act beyond the bounds of traditional finance. Loan funds, low-income



SOURCE: Nonprofit Finance Fund. See www.payforsuccess.org.

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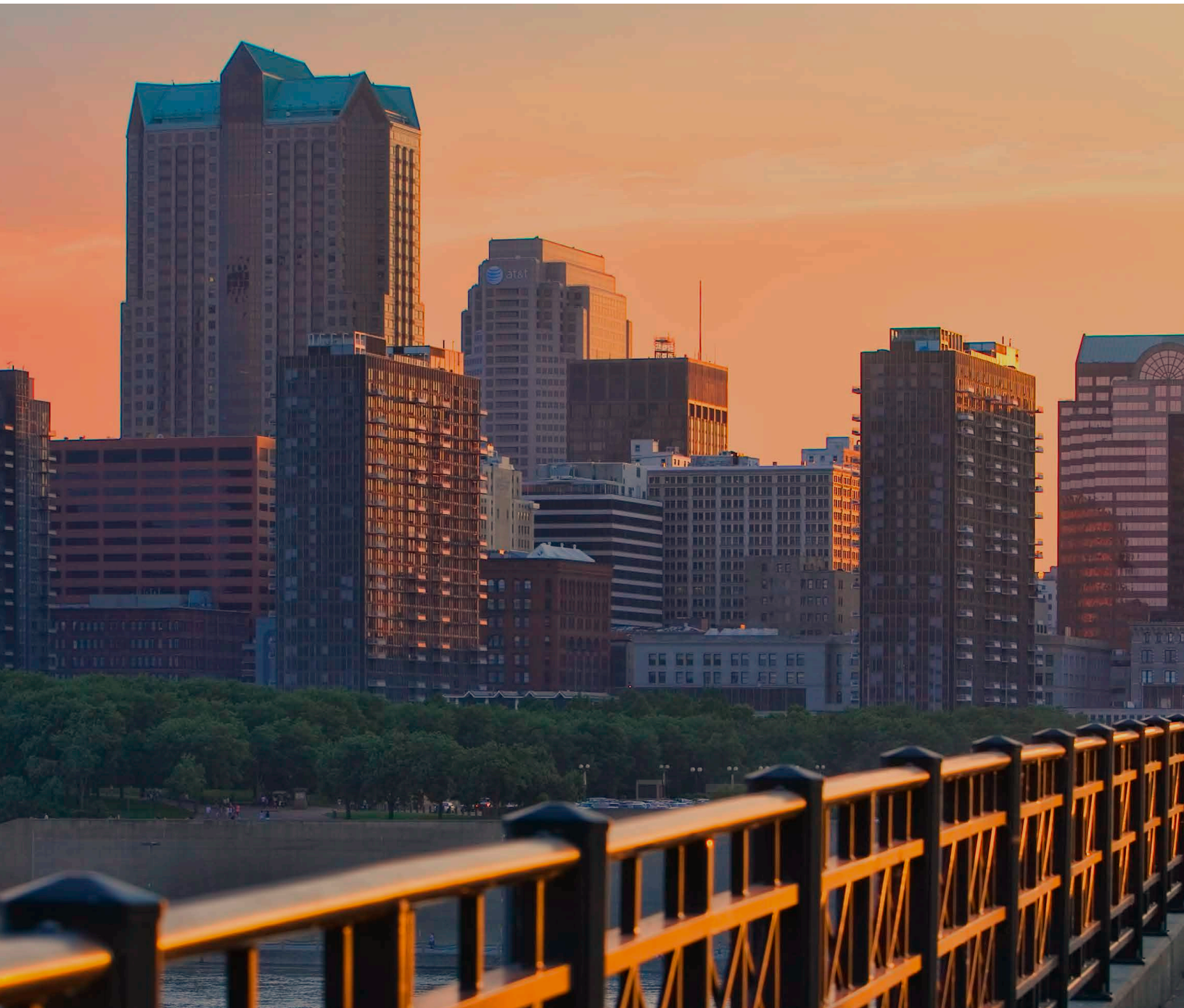
credit unions, and more, have brought forth products and services which can assist under-resourced consumers and entrepreneurs in ways that larger, more mainstream institutions cannot. St. Louis Community Credit Union and Parkside Financial Bank & Trust have found common ground to link affordable capital with communities that will grow when given the opportunity,” said Woodruff.¹⁸ ■

ENDNOTES

18 Woodruff, 2018.

19 Henriques et al., n.d.

20 Ibid.



Foundations

St. Louis' charitable foundations are uniquely placed to build off of their grant-making capacities to become meaningful players in the world of impact investing. These investments can be either program-related or mission-related. As defined by the Internal Revenue Service, program-related investments (PRIs) count toward foundations' required minimum 5 percent annual payouts.¹⁹ Annual returns from PRIs are added to foundations' payout requirements, meaning that the returned capital is immediately recycled into continuous investments. The IRS does not place restrictions on the size, return rate or vehicles of PRIs as long as the investment remains aligned with the foundation's charitable purpose. In comparison, mission-related investments are both in line with the foundation's mission and seek a competitive rate of return.²⁰ These investments do not count toward foundations' minimum annual payout requirements.

While foundations may fear beginning the process of impact investing because of the resources required to structure and manage a one-off investment—including due diligence, time and collecting on nonperforming loans—a handful of foundations headquartered in St. Louis provide strong examples of how to engage in innovative philanthropic funding utilizing a variety of investment strategies. ►

CASE STUDY—Foundation Partnerships: Deaconess Foundation, IFF and Urban Sprouts

The Deaconess Foundation began working with IFF—a CDFI that supports the capital development of human services nonprofits that serve low-income populations across the Midwest—in 2014 based on its interest in building the capacity of nonprofits dedicated to improving child health and wellness. Deaconess also appreciated that IFF was willing to take on the burden of evaluating potential investments, underwriting and taking collateral for loans, and guaranteeing that every dollar invested would be repaid.²¹

When Deaconess chose to invest \$250,000 in IFF in 2015, the foundation was strategically matched with Urban Sprouts, an economically diverse early childhood education center, based on the mission alignment of the two organizations.²²

Founded in 2009, Urban Sprouts was operating its programming for 10 children in an old gas station in University City, a St. Louis County suburb. As it grew in capacity and prepared itself for investment, the center was serving 80 children and had a 250-student waiting list.

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While Urban Sprouts founder Ellicia Qualls independently raised \$150,000, Deaconess' \$250,000 was able to leverage \$2 million from the New Markets Tax Credit (NMTC) loan pool, a loan from Justine PETERSEN, and other funding—for a total of a \$2.2 million investment in the center. Through IFF, this investment is structured as a seven-year interest-only loan with a 3.5 percent interest rate.²³

Urban Sprouts additionally received grant funding from Gateway Children's Charity and a Community Development Block Grant from the U.S. Department of Housing and Urban Development.²⁴

Qualls utilized the collective funding to purchase a building that doubled the size of her facility. Urban Sprouts now resides in a 14,000-sq.-ft. state-of-the-art center with 11 classrooms, an art studio, a children's kitchen and a playground with a sustainable garden.²⁵ Today, Urban Sprouts' monthly mortgage payment is only \$200 more than before the expansion.²⁶

Urban Sprouts' expansion also doubled the size of the center's programming and created 30 additional jobs. IFF assisted Urban Sprouts in connecting with St. Louis County for scholarships for 60 children. Now, almost half of the center's 128 children are on subsidies.²⁷

According to IFF Executive Director of the Southern Region David Desai-Ramirez, the Deaconess Foundation investment in Urban Sprouts speaks to the “catalytic power” of investing in CDFIs.²⁸ While Qualls was able to raise some capital on her own, Deaconess' investment in IFF unlocked a variety of other funding sources, from grants to NMTC loans, that allowed Urban Sprouts to greatly increase its early childhood education programming and the scope of its impact. Deaconess' investment generated impact within its vision of ensuring the health and well-being of children, while attaining a 3.5 percent return on its investment. ■

ENDNOTES

21 Oldani, n.d.

22 Desai-Ramirez and Johnson, 2018.

23 Desai-Ramirez and Johnson, 2018.

24 Ibid.

25 Qualls, 2017.

26 Desai-Ramirez, n.d.

27 Qualls, 2017.

28 Desai-Ramirez and Johnson, 2018.



Tax Credit Investors

Community development financial institutions are key partners and intermediaries for the placement of impact-investing capital. Other partners like tax credit investors offer additional incentives based on programs such as the NMTC and Low-Income Housing Tax Credit to further incentivize the flow of private capital into CDFIs and other community development organizations. ▶

CASE STUDY—Tax Credit Investor Partnerships: Twain Financial Partners and Justine PETERSEN

Twain Financial Partners serves as a manager and guarantor between investors who place capital in exchange for NMTCs and the Community Development Entities (CDEs) that hold and allocate the NMTCs. Recently, Twain Financial Partners organized an \$8 million small-business loan fund for Justine PETERSEN, leveraging NMTCs to provide capital to low-income Qualified Census Tracts in Missouri and Illinois.²⁹ To provide the funding to Justine PETERSEN, Twain Financial Partners coordinated \$2.6 million in NMTC equity

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from U.S. Bancorp Community Development Corporation and a \$5.7 million loan from People's United Bank, which went through the National Community Fund of Portland, Ore., as the qualifying CDE for the NMTC sale.³⁰ While Justine PETERSEN provides the underwriting and technical assistance for the loans, Twain Financial Partners monitors the fund's compliance requirements.

Justine PETERSEN CEO Rob Boyle told the Illinois Business Journal in 2018, "[Justine PETERSEN's] challenge as a community development lender has been the dearth of available loan capital relative to demand. The U.S. Department of Treasury's [sic] New Markets Tax Credit product and the capital that it and our partners have inspired through this fund offers [sic] a port of entry to mainstream financing for companies with capacity to influence their local economies."³¹

Twain Financial Partners closed the transaction in March 2018, and Justine PETERSEN deployed \$3 million within one month.³² The remaining \$5 million was deployed over the following three quarters. These microloans follow Justine PETERSEN's traditional loan models and serve as revolving loans, meaning that the capital is redeployed into the community upon repayment, until the end of the NMTC compliance period in seven years.³³ ■



SOURCE: Justine PETERSEN

Redmond "Red" Harris (right), pictured here with Justine PETERSEN CEO Robert Boyle, participated in the Justine PETERSEN's Aspire Entrepreneurship Initiative program to strengthen his credit before taking out loans to start and grow his restaurant, Red's Bar-B-Q in Ferguson, Mo.

ENDNOTES

- 29 Illinois Business Journal, 2018; Hirshman, 2018.
- 30 Illinois Business Journal, 2018.
- 31 Ibid.
- 32 Ibid.
- 33 Illinois Business Journal, 2018; Hirshman, 2018.





EMERGING STRUCTURES FOR IMPACT INVESTING

The strong presence of CDFIs in St. Louis offers an accessible route to impact investing via low-cost loans, as well as cash deposits and certificates of deposit at CDFI credit unions. Innovative financing structures are emerging across the country. These models may offer inspiration for institutional and individual investors in St. Louis interested in catalyzing social impact.

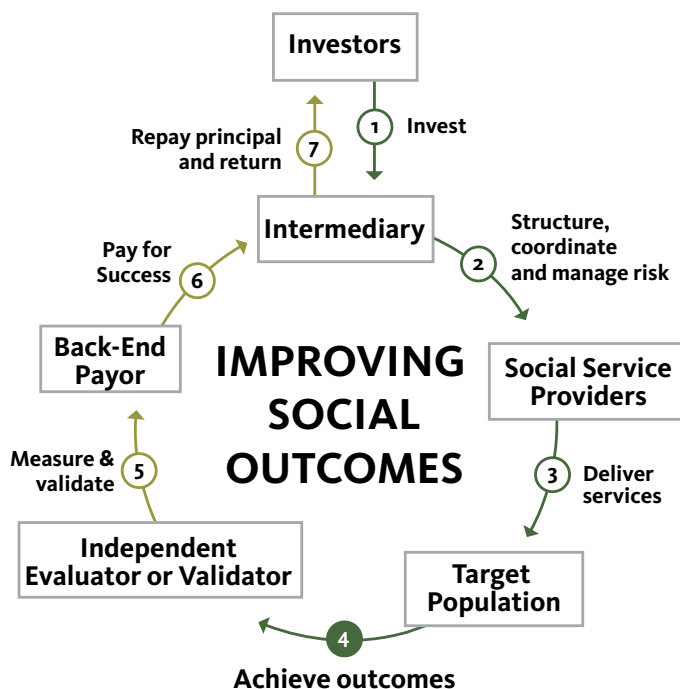
Outcomes-based Financing

Outcomes-based financing, also known as Pay for Success or Social Impact Bonds, is a growing trend in financing social impact. Outcomes-based financing centers on the idea of directing funding based on the outcomes of an intervention, as opposed to the activities or outputs. Because of the short tenure of many grants and funding cycles, evaluations tend to center around activities: How many people were served? What was the immediate impact? Outcomes-based financing enables governments and other funders to direct efforts toward the root causes of social and environmental problems.

In Cuyahoga County, which includes the city of Cleveland, Ohio, a successful Pay for Success program centered around homeless families with children. Evidence shows that children with homeless caregivers spend more time in out-of-home foster care than those with housing-secure caregivers. This extended time in the child welfare system has historically resulted in poor outcomes for vulnerable families and higher costs for local families. In Cleveland, a coalition of local partners came together to accelerate the process of ensuring caregivers stable, affordable housing. A combination of private investors, foundations and CDFIs invested \$4 million in up-front costs to support the implementation of the program. Cuyahoga County pledged to pay the coalition \$75 per reduced foster-care day in 2021, with a maximum payment of \$5 million (at a 50 percent reduction in foster-care days). Returns are scaled based on impact, with both the county and investors making a return above a 25 percent reduction in days out of the home.

Outcomes-based financing enables local and state governments to catalyze new approaches to achieving key social outcomes. By offering structured end-payments, the government pays only when targets are met. Social service providers receive initial funding from the up-front investors—a coalition of impact investors—who are incentivized to evaluate progress and course-correct if outcomes are not being met.

In Missouri, the Corporation for Supportive Housing, a national intermediary, has selected Boone County as one of four counties to receive technical assistance to integrate data from its homeless assistance and criminal justice agencies to better match eligible individuals with supportive housing. Based on success, end-payment will be provided by the Corporation for National and Community Service Social Innovation Fund.



SOURCE: Nonprofit Finance Fund. See www.payforsuccess.org.

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The St. Louis Economic Development Partnership's Nvested platform offers accredited and nonaccredited crowdfunded investment opportunities through Title II and Title III of the Jumpstart Our Business Startups (JOBS) Act. The first Reg C campaign to launch on Nvested: Wellbeing Brewing Co., which produces a nonalcoholic craft beer. Wellbeing raised \$199,000 for a convertible note with a 6 percent interest rate and a 2023 maturity date.

Crowdfunded Investment

Crowdfunded investment was accelerated by the 2012 Jumpstart Our Business Startups (JOBS) Act, which created legal structures for equity-based crowdfunding focused on creating a more accessible structure for investments.

Cutting Edge Capital, based in Oakland, Calif., advises for-profit and nonprofit organizations on direct public offerings, which offer accredited and nonaccredited investment opportunities. Cutting Edge Capital specifically partners with business leaders in the creation of enterprises that express shareholder values, such as the Oakland-based Community Foods Market. Guerrilla Development,

in Portland, Ore., also offers crowdfunded investments to support its social-impact real estate developments.

Since 2013, Calvert Impact Capital and Impact Assets, Inc., have offered simple platforms, like Calvert's Community Investment Note, for investors at all asset levels to engage. The Community Investment Trust (CIT) structure created by Portland-based Mercy Corps Northwest offers the opportunity for place-based, low-dollar impact investing. The first project, East Portland CIT Corporation, provides 300 to 500 families with a long-term investment opportunity in commercial real estate development in their neighborhoods. This strategy creates a sense of shared ownership of the neighborhood, encourages asset building, and offers short- and long-term returns through annual dividends and share price changes. In the case of the East Portland CIT, a mix of accessible low-dollar individual investors and high-dollar institutional impact investors capitalized the project.

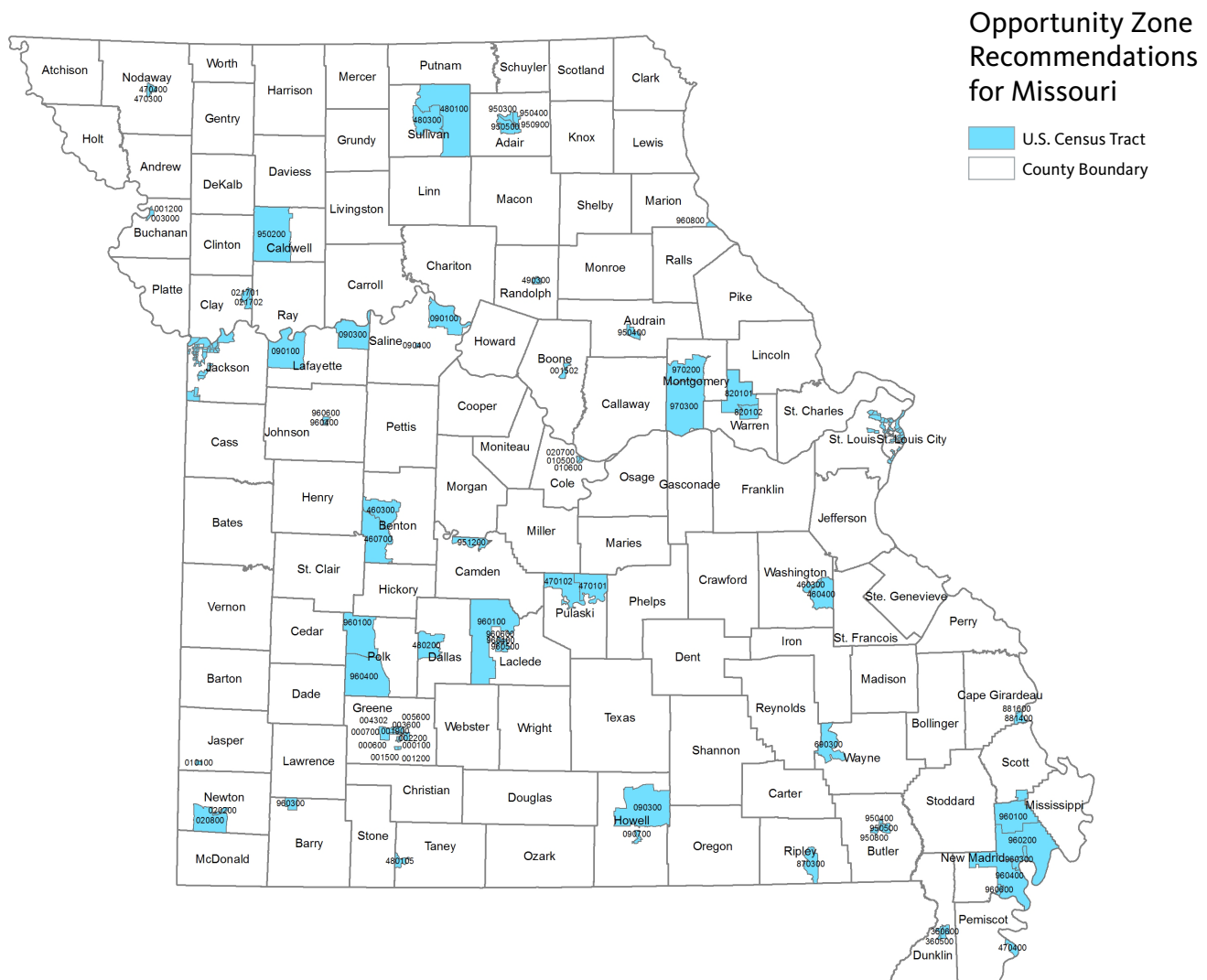
Opportunity Zones

Created by the 2017 Tax Cuts and Jobs Act, the Opportunity Zones program establishes a mechanism that enables investors with capital gains tax liabilities across the country to invest in Qualified Opportunity Funds



(QOFs) certified by the U.S. Treasury. QOFs then use invested capital to make equity investments in businesses and real estate in designated Opportunity Zones. Opportunity Zones are designated at the state level and consist of up to 25 percent of that state's eligible low-income census tracts (those eligible for NMTC). Opportunity Zones in each state were identified in spring 2018, and the IRS published rules on the regulations surrounding QOFs in late October 2018.

These zones will offer an opportunity for investors to defer and reduce tax liabilities while investing in low-income communities often disconnected from traditional capital markets. Enterprise Community Partners, a national developer of affordable housing, is already sourcing deals for a national Opportunity Zone fund. Fundrise, a digital platform for real estate investment trusts, also intends to raise upward of \$500 million for deployment in Opportunity Zones. ■



NOTE: Missouri's state government identified potential Opportunity Zones through the input of local government. In addition to local input, the state considered the potential for Opportunity Zones to generate investment impact. For more information and an interactive map of Missouri Opportunity Zones. See <https://ded.mo.gov/content/opportunity-zones>.

SOURCE: Missouri Department of Economic Development



PURSuing IMPACT INVESTING *IN* ST. LOUIS

The St. Louis institutions currently pursuing impact investing represent a diversity of both mission foci and investment strategies, the full diversity of which is explored within the appendixes. For some types of impact investors, such as banks and tax credit investors, there are often pre-existing relationships with intermediaries like CDFIs and tax credit management firms, and a high level of institutional knowledge on the deployment of capital. The highlighted NMTC investment featured two CDE responsible for deploying the tax credits (U.S. Bancorp Community Development Corporation and People's United Bank), a tax credit management firm responsible for compliance (Twain Financial Partners), and a CDFI responsible for deploying capital to the target population (Justine PETERSEN).

Individual investors and foundations often begin on the path toward impact investing with an awareness that their assets could be used for social benefit but that they have minimal experience in due diligence and direct management involved in the direct placement of capital. As noted by Missouri Foundation for Health Program Director Matt Kuhlenbeck, it took the foundation more than eight months to formalize the terms of its investment in supportive healthy housing.³⁴ Additional groundwork was required to educate the foundation's board on impact investing and social determinants of health.

For asset managers interested in engaging in impact investing, the first step is *determining the intended impact*. Impact investors are motivated by an interest in ensuring that their investments offer both a financial and societal return; this varies on their willingness to accept below-market terms, as well as the possibility of focused investment on a specific sector or geography. Foundations are often place-based and thematically focused, creating the requirement that their investments focus on a set

area and issue. Investors also vary in their desire for direct engagement with end users.

Investors must also *determine their capacity*. Capacity should be understood not simply as the amount of money or percentage of a portfolio that investors are interested in deploying through impact investing but also time, expertise and concessions. An asset manager may have significant capital available but minimal capacity to deploy the time and expertise required for more direct forms of investment. In this case, socially responsible investing or the reliance on intermediaries may be most suitable. Investors with a high capacity for due diligence and experience in impact investing may choose to engage in private equity investment strategies and newer forms of crowdfunded investment.

Investment advisers can also be helpful in the next step of pursuing impact investing—*determining an investment strategy*. Potential options include choosing to put money toward catalyzing a specific organization, complementing the efforts of other funders, collaborating with other investors and focusing on generating revenue.³⁵ The investor must decide between direct and indirect investment opportunities, as well as among asset class preferences. Impact-investing collaboratives, similar investors and academic institutions offer a valuable starting point for investors.

If choosing to work with an intermediary like a CDFI, the investor should check the intermediary's financial health and organizational capacity.³⁶ Understanding the measurable outcomes of an intermediary's investments is an important part of determining whether the organization aligns with the investor's intended mission and expectations of financial return. Aeris, a ratings agency initially launched by the Opportunity Finance Network, works to connect capital with investments that cre-

continued on p. 30

ate catalytic opportunities in underserved communities. Aeris offers financial and impact metrics for CDFIs.

Once an investment vehicle and project are chosen, the investor must then undertake the process of investment *implementation*. While this may be as simple as instructing one's financial adviser to place money in a specific investment fund, investors choosing to make direct loans must determine the terms of their investments, including interest rates, payment provisions, reporting obligations, default provisions, and any other covenants.³⁷

Finally, an essential aspect of innovative philanthropic funding is *outcome tracking*. These metrics should evaluate not only cash flow and key financial ratios but also the investment's achievement of its intended mission-related goals. While financial metrics are relatively standard across investing strategies, the social-impact measures tracked may need to be customized for each investment. To better codify impact metrics across projects, the Global Impact Investing Network's Navigating Impact resource offers a catalog of social, environmental and financial performance metrics. ■

ENDNOTES

34 Kühlenbeck, 2018.

35 Arabella Advisors et al., 2015.

36 Philanthropy Northwest, 2017.

37 Ibid.



CONCLUSION

Impact investing describes a broad spectrum of activities. St. Louis investors and funders have the opportunity to come together alongside nonprofits and social ventures to accelerate positive outcomes for the region and beyond. These opportunities are open to investors of all sizes. These opportunities can be as simple as adopting socially responsible investing practices and adjusting investments to match individual or organization values. Place-based impact investing offers an additional opportunity to play a sustained role in creating a stronger region.

Intermediaries such as CDFIs, firms engaged in tax credit investing and non-CDFI loan funds offer an accessible path for minimizing risk and transaction costs. Sustained collaborative effort is critical in creating simple, accessible pathways for impact. These collaborative efforts decrease the transaction costs of impact investing by reducing the risk and due diligence required by individual or institutional investors. Within St. Louis, the St. Louis CDFI Coalition and the St. Louis Fed's Investment Connection program are valuable entry points for opportunities to engage with ongoing place-based work.

This work is occurring across the country, as regions form collaborative place-based impact-investing initiatives. Organizations like the Appalachia Funders Network, the Southwest's Rainmakers Investment Collaborative and The Michigan Collaborative create accessible routes into impact investing. These organizations reduce the level of active engagement and relationship building required by investors. For example, The Michigan Collaborative offers a publicly traded mutual fund: the CRA Qualified Investment Institutional Shares fund. Growth in the impact-investing ecosystem of St. Louis is creating new opportunities for investments that offer both return on investment and catalytic social impact. ■



APPENDIX I: ST. LOUIS CDFIS



Alliance Credit Union

Alliance Credit Union serves not only as a traditional banking institution but also as a CDFI committed primarily to individuals and businesses in Ferguson and Jennings, suburbs of north St. Louis County. Alliance Credit Union offers a variety of loans, including new- and used-car loans, home loans, personal loans and lines of credit, student loans and loan refinancing, credit booster loans, and commercial property loans and small-business fleet financing. Since its CDFI certification, Alliance Credit Union provides increased services to low-income neighborhoods and has incorporated riskier loans, like business loans and mortgages in low-income census tracts and automobile loans to individuals with low credit scores.

Alliance Credit Union undertakes its work as a CDFI by leveraging its deposits to utilize its CDFI grants as loan loss reserves in order to lend out more money. Alliance also borrows money at low rates to assist more people than its deposit-based liquidity would allow. In turn, Alliance's loan-to-deposit ratio—the amount of money the credit union has deployed compared to its total deposits—is around 115 percent.³⁸

Although Alliance utilizes the same underwriting process for both its traditional and CDFI loans, its loan officers can get more involved in conducting due diligence and advising for CDFI loans. While Alliance Credit Union CDFI loans experience higher delinquency rates (12 percent) and charge-off rates (5 to 6 percent) than those of the institution's traditional loans (less than 0.5 percent for both), the organization considers absorbing that risk and those losses as an important part of its mission to equitably serve its community. According to Alliance Vice President of Human Resources Frank Evans,³⁹ "If our charge-off rate is too low, we know we're not doing enough for the community." ■

ENDNOTES

38 Evans, 2018.

39 Ibid.



ALLIANCE CREDIT UNION AND THE FERGUSON PROTESTS

With a branch at the intersection of West Florissant and Ferguson Avenues, Alliance Credit Union had a unique location during the August 2014 protests in Ferguson responding to Michael Brown's death and alleged police misconduct in the St. Louis region. Upon seeing the damage to local storefronts, representatives from Alliance began walking West Florissant Avenue and offering 20 \$5,000 emergency loans with zero underwriting and a zero percent interest rate to small businesses. Only two loans defaulted, which encouraged Alliance Credit Union to continue its efforts to make traditionally riskier loans and move toward being more proactive in addressing community needs. As stated by Frank Evans, vice president of Human Resources for Alliance, "That was a reaction. Now, how do we be more proactive? How do we find those areas of need without having to see it on the news?"



IFF

Originally founded as the Illinois Facilities Fund, IFF now supports the development of facilities and the purchase of physical collateral for human services nonprofits that serve low-income populations across the Midwest. As a CDFI, IFF provides loans from \$10,000 to \$2 million with 15-year terms to cover up to 95 percent of a nonprofit's costs for facility improvement and the acquisition of equipment and vehicles. More recently, IFF has expanded to offer financing to for-profit, full-service grocery stores in food deserts; credit enhancement for charter schools; for-profit affordable housing located near public transit hubs; and energy-efficiency initiatives. In addition to its loan products, IFF also houses a Social Impact Accelerator, which coordinates research, evaluation and community development work related to early childhood and K-12 education.

In the past 30 years, IFF has leveraged \$2.3 billion in community investments, deployed more than \$700 million in loans, funded over 700 real estate projects, and successfully closed over 1,300 loans.⁴⁰ IFF targets a rate of return from zero to 2 percent, and IFF's loans experience a delinquency rate of 0.17 percent.⁴¹

Of IFF's \$400 million portfolio, \$130 million is currently deployed in St. Louis, with 10 to 15 percent coming from St. Louis-based banks, foundations, and other investors.⁴² Local borrowers include Beyond Housing, Boys & Girls Clubs of Greater St. Louis, City Garden Montessori School, and Paraquad.⁴³ A case study of IFF's investment in Urban Sprouts, a local early childhood education center, is found on page 19.

IFF receives community investments, with three-year pledges of either equity or debt, from banks (representing 65 percent of the investments),

foundations (25 to 30 percent) and independent individuals (5 to 10 percent).⁴⁴ Much of these investments goes into the Investor Consortium, IFF's primary investment mechanism, which sells \$20 million-collateral note trusts with full security and slightly higher returns than IFF's traditional loans.

IFF receives referrals for potential investments by word of mouth from previous borrowers, affinity groups and fundraising consultants.⁴⁵ Before making a loan, IFF submits potential borrowers to a rigorous credit process that examines the entity's financials and organizational management. Once it has selected a partner, IFF makes all its loans with its own liquidity. After construction is completed and the investment is stabilized, the investment is offered to IFF's Investor Consortium.

Participants in the Investor Consortium receive regular principal and interest payments. The repaid loan principal then revolves to finance additional loans, while a portion of the interest payments is used to pay for portfolio management and technical assistance. Over time, participants in IFF's Investment Consortium receive repayment of their investments with interest, as well as a report on the impact of the loans they funded. ■

ENDNOTES

40 IFF, n.d.; Kasemeyer, 2017.

41 Desai-Ramirez, n.d.

42 Ibid.; Abente et al., 2018.

43 IFF, n.d.

44 Desai-Ramirez, n.d.

45 Desai-Ramirez and Johnson, 2018.

International Institute Community Development Corporation

As a subsidiary of the International Institute of Metropolitan St. Louis, the International Institute Community Development Corporation (IICDC) focuses its CDFI work on supporting immigrant entrepreneurs and increasing the bankability of local immigrants and refugees. Not only does IICDC consider this work important in leveling the playing field for immigrant-owned startups, it sees investing in immigrant-owned businesses as an important means of attracting people to and retaining people in the St. Louis region.⁴⁶

The International Institute began making microloans to refugee-owned businesses with funding from the U.S. Department of Health and Human Services' Office of Refugee Resettlement in 1999, in response to the need for capital to support refugee entrepreneurs.⁴⁷ In 2007, the International Institute founded the IICDC, which received certification as a CDFI in 2008. Becoming a designated CDFI both professionalized the International Institute's existing microlending services and enabled the organization to provide loans to low-income immigrants in addition to refugees.

Today, IICDC utilizes funding from the Office of Refugee Resettlement, the CDFI Fund and banks to offer microenterprise loans ranging from \$500 to \$45,000. To qualify for a loan, a client must demonstrate that he or she is foreign-born and cannot access prime credit from local banks based on income and/or credit history.⁴⁸ While the terms of each loan option differ, specific products are available for refugee-owned businesses, immigrants interested in building their credit, and female refugee entrepreneurs. IICDC also offers *riba*-free loans—loans that charge a fee for service instead of interest (*riba*), thereby respecting Islam's prohibition on interest—for members of the Muslim faith. Loans are available to businesses in most industry sectors.⁴⁹

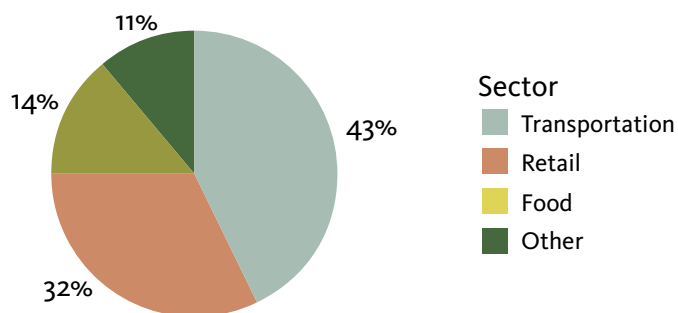
The IICDC offers technical assistance and financial education in addition to capital. In partic-

ular, IICDC's loan officers want to understand their clients' barriers to qualifying for traditional banking services and help overcome those obstacles.⁵⁰

Among its loan products, IICDC tracks the change in its clients' household incomes after 12 loan repayments via annual client surveys, its clients' credit scores at underwriting and after 12 loan repayments, the number of jobs created by its loans, and the total economic impact of its loans.⁵¹ The economic impact of IICDC's loans is measured with the assistance of the St. Louis Regional Chamber of Commerce, which uses IMPLAN, an economic analysis tool.

Over the past three years, IICDC has deployed \$740,000, with a charge-off rate of less than 3 percent during that period.⁵² Within five years of obtaining its certification as a CDFI, IICDC had financed more than 500 immigrant-owned businesses and generated over \$161 million in economic impact for St. Louis.⁵³ In 2017 alone, businesses receiving IICDC's loans created or retained 62 jobs, generated approximately \$2.6 million in labor income, and created \$8.2 million in total revenue.⁵⁴ ■

IICDC Loans by Industry Sector



SOURCE: International Institute Community Development Corp.

ENDNOTES

- 46 Abente, 2018; Abente et al., 2018.
- 47 Abente, 2018.
- 48 Ibid.
- 49 International Institute Community Development Corporation, 2016.
- 50 Abente, 2018.
- 51 Ibid.
- 52 Ibid.
- 53 International Institute Community Development Corporation, n.d.
- 54 Sergenian, 2018.



justine PETERSEN
BUILDING ASSETS. CHANGING LIVES.

Justine PETERSEN and Great Rivers Community Capital

Justine PETERSEN (JP) and its CDFI subsidiary Great Rivers Community Capital were founded 22 years ago to honor the legacy of social worker Justine Petersen, the creator of the first Community Reinvestment Act-compliant home loan products. Today, JP specializes in providing microenterprise and small personal loans in Missouri, Illinois and eastern Kansas.

As the largest intermediary microlender for the U.S. Small Business Administration (SBA), Justine PETERSEN utilizes funding from the SBA, banks, foundations, and other investors to provide business loans targeted to populations often excluded from the mainstream financial industry, including entrepreneurs of color, low-income entrepreneurs and businesses existing within the informal economy. As part of its due diligence, the organization asks for borrowers' tax returns and bank statements, although it provides latitude in its underwriting; for example, allowing letters of explanation for why potential borrowers' tax returns have not been filed.⁵⁵

Other products offered include loans for mortgages; loans for housing down payments, closing costs and foreclosure prevention; and small-dollar loans for short-term emergencies, credit repair and payday alternatives for low- to moderate-income individuals and families. Each of Justine PETERSEN's loan products is intended to graduate the organization's clients to mainstream financial institutions.

Justine PETERSEN currently has \$24 million deployed, with a less than 5 percent default rate.⁵⁶ The organization's loans range from \$150 to \$50,000, with an average of \$9,000. Interest rates range from

8.5 to 16 percent, and JP will lend up to \$2,500 without collateral. Justine PETERSEN has paid every dollar back to its investors since its inception.

Justine PETERSEN has received community investments, some as small as \$1,000, from 50 different entities.⁵⁷ These investments are often targeted toward specific social themes and offer a 3 to 5 percent financial return. A case study of how JP utilized a community investment from Reliance Bank is featured on page 21.

“Access to safe and affordable capital is central to the mission of Justine PETERSEN.”

— *Galen Gondolfi, chief communications officer at Justine PETERSEN*⁵⁸

Since 2002, Justine PETERSEN and its CDFI Great Rivers Community Capital have deployed over \$100 million in lending with \$4.5 million in consumer loans to 3,500 borrowers, \$1 million in mortgage loans to 36 first-time homebuyers, \$1.6 million in second-mortgage loans to 495 recipients, and \$66 million in microenterprise loans to over 4,122 entrepreneurs.⁵⁹ ■

ENDNOTES

55 Gondolfi, n.d.

56 Ibid.

57 Ibid.

58 Ibid.

59 Justine PETERSEN, n.d.

St. Louis Community Credit Union

At 75 years old with a 17-branch footprint, St. Louis Community Credit Union (SLCCU) is the nation's largest African-American-owned financial institution west of Baltimore and has more than \$250 million in assets. As a low-income designated credit union and minority depository institution per the National Credit Union Administration, SLCCU serves nearly 60,000 account holders, 81 percent of whom are low- to moderate-income individuals and approximately 85 percent of whom are African-American.⁶⁰ Furthermore, 15 of the credit union's 17 branches are in "distressed" or "severely distressed" census tracts.

In 2007, SLCCU began intentionally providing services like second-chance checking accounts and payday loan alternatives to areas in which they saw gaps in community banking access.⁶¹ In turn, SLCCU received its certification as a CDFI in 2009, which both affirmed the work the credit union was already undertaking in marginalized communities and allowed greater access to grant funding.

"There's a financial bottom line—we have to keep our doors open—but there's also the member bottom line, which is doing right by the community we serve."

— *Paul Woodruff, vice president of Community Development for St. Louis Community Credit Union and executive director of Prosperity Connection*⁶²

Today, SLCCU specializes in offering credit-building loans of \$600 paid over 12 months, \$500 payday loan alternatives paid back over 90 to 180 days, and used-car loans. The credit union also offers personal loans of up to \$15,000 without collateral, new-car and automobile refinancing loans, payday loan consolidation and home loans, among other loan products.

By utilizing a risk-adjusted pricing model, SLC-

CU offers a lower barrier to entry for consumers in need of financial products than do traditional financial institutions. Small, unsecured loans are largely considered "relationship lending" and are evaluated for risk based on the potential borrower's banking history with the credit union rather than on traditional credit report analysis.⁶³ For larger loans of \$1,000 to \$15,000, SLCCU uses a more traditional underwriting model, looking at borrowers' credit scores, outstanding debt and past delinquencies. Overall, SLCCU's delinquency and charge-off rates—1.5 to 2 percent and 1 to 1.5 percent, respectively—mirror those of mainstream credit unions.⁶⁴

In addition to offering its traditional loan products, SLCCU also founded and partners with Prosperity Connection, a nonprofit affiliate focused on financial education. While Prosperity Connection's Excel Centers provide financial coaching related to credit, debt load and asset attainment, the organization also provides low-cost banking services through its RedDough Money Centers. The two centers, located in Pagedale (in north St. Louis County) and south St. Louis city, provide check cashing, bill pay, debit card and short-term loan services to the unbanked. In 2017, RedDough Money Centers disbursed 924 loans, for a total of \$544,407.⁶⁵

To expand upon its current work, SLCCU is soliciting larger deposits from corporations, wealthy individuals and foundations for longer periods of time and at below-market rates. In turn, SLCCU intends to leverage these deposits as capital for loans to its member base, as well as leverage deposits through investment channels to build alternative sources of income that will support the overall work of the institution. Moreover, SLCCU actively seeks grant funds from public, private and philanthropic sources to further diversify income streams. Through these two activities, the institution aims to maintain and grow its ability to reach more people throughout the St. Louis region in need of free and low-cost financial products and services. ■

ENDNOTES

60 Woodruff, 2018.

61 Ibid.

62 Ibid.

63 Ibid.

64 Ibid.

65 Prosperity Connection, 2017.

ST. FERDINAND HOMES II

Utilizing a Gateway CDFI loan of \$2.4 million and Low-Income Housing Tax Credits, St. Louis Equity Fund (SLEFI) invested \$7.8 million—76 percent of the project’s total cost—into St. Ferdinand Homes II.⁶⁶ This 43-unit affordable-housing development in St. Louis’ Greater Ville neighborhood is the sixth partnership between SLEFI and Northside Community Housing, a nonprofit community development corporation focused on north St. Louis city. Financing was also contributed by the city of St. Louis, while consulting was provided by Rise Community Development. Upon the project’s completion, 11 units will be reserved for households earning 50 percent or less of area median income (AMI), 27 will be for households earning 60 percent or less of AMI, and 5 units will be at market rate.⁶⁷



St. Louis Equity Fund and Gateway Community Development Fund

St. Louis Equity Fund (SLEFI), founded in 1988, invests in affordable rental housing development and historic rehabilitation projects with a housing component, utilizing tax incentives and capital from banks and corporations like Ameren, AB InBev, PNC and Spire. To do this work, SLEFI deploys capital from its annual fund into housing developments in Missouri—namely in St. Louis and Kansas City—and in southern and western Illinois, receives tax credits, and converts its tax credits into market-rate equity for its investors.⁶⁸

SLEFI founded Gateway Community Development Fund, Inc. (Gateway CDFI) as a for-profit subsidiary in 2009 in response to the Great Recession. When banks did not want to refinance properties in which SLEFI had previously invested, Gateway CDFI stepped in to meet that need. Gateway became certified as a CDFI in 2011 and began raising a loan pool for affordable housing financing from 10 banks in 2012. By 2015, Gateway had raised \$3 million and made its first loan.⁶⁹

Gateway CDFI focuses its investments in for-profit and non-profit affordable housing developers on permanent first-mortgage financing, affordable-housing construction loans, property acquisitions and housing rehabilitation work. For these loans, Gateway is willing to invest up to 95 percent of a project’s loan-to-value ratio.⁷⁰ Gateway also makes predevelopment loans, often to neighborhood organizations, up to \$50,000 with its own liquidity, to assist organizations as they prepare their tax credit applications. In addition, the CDFI provides development and strategy consulting to help with those tax credit applications, identifying funding sources, financial projections, and compliance and asset management. To date, Gateway CDFI has lent to Northside Community Housing, Inc., Spanish Lake Community Development Corporation, and Tower Grove Neighborhoods Community Development Corporation, among other local clients.⁷¹

Gateway CDFI is typically referred to its borrowers by banks that cannot lend above a certain loan-to-value ratio and therefore cannot sufficiently fund a proposed project. To conduct its due diligence, Gateway CDFI looks at potential borrowers' acquisition costs, construction budgets, appraised valuation and potential sale value, and experience and ability to repay.⁷² When making a loan, the organization asks its borrower to pledge its developer fee to Gateway CDFI and give Gateway the project's first mortgage.

Gateway CDFI utilizes participation loan pools as its investment mechanism. Each participant is required to invest at least \$250,000 in the loan pool, and its share in each loan is proportionate to its investment in the entire pool. Gateway CDFI collects interest at 1.5 to 2 percent over the one-year Libor, so loan pool participants can receive returns at 3 percent over the one-year Libor.⁷³ In addition, Gateway provides each investor with an annual Community Impact Report. The current loan pool is a five-year commitment ending in 2019 that acts as a revolving facility.

Since its inception, Gateway CDFI has made \$6.9 million in loans and has financed 356 housing units.⁷⁴ Today, Gateway's loan pool stands at \$5 million, and CEO John Kennedy is working to increase the pool to \$10 million by the end of 2019 for its second round.⁷⁵ ■



ENDNOTES

- 66 St. Louis Equity Fund, 2017; St. Louis Equity Fund, n.d.
- 67 Ibid.
- 68 Kennedy, 2018.
- 69 Ibid.
- 70 Ibid.
- 71 Gateway Community Development Fund, Inc., 2018.
- 72 Ibid.
- 73 Ibid.
- 74 Ibid.
- 75 Ibid.

APPENDIX II: FOUNDATIONS AND INVESTORS



Health and hope for all St. Louis children

Deaconess Foundation

Largely known for its history of extensive grant-making, the Deaconess Foundation, a St. Louis-based foundation focused on improving child health and well-being, began its formal process of direct investing in 2014 as a means of capitalizing more of the organization's portfolio in pursuit of its mission—the improved health of the metropolitan St. Louis community.

“Use all your assets. Grant-making is not the only way to use them.”

— *Matt Oldani, vice president of Strategic Alignment for Deaconess Foundation*⁷⁶

Today, the Deaconess Foundation deploys up to \$1 million—representing 1 to 2 percent of its total portfolio—to mission-related investments that focus specifically on child well-being programming, including early childhood education, family economic mobility, health care and equity for youth.⁷⁷

As a direct investor, the Deaconess Foundation funds nonprofits, social enterprises, CDFIs, credit unions, and development finance agencies working throughout the St. Louis region. To choose its partners, the foundation evaluates potential borrowers for their mission alignment, business models, use of current capital, financial strength and track records of lending and investments, and organizational capacity.

The Deaconess Foundation's partners receive loans ranging from \$100,000 to \$500,000, with minimum 3 percent interest rates and an anticipated term length of 3 to 5 years.⁷⁸ Throughout the

lifetime of the loan, Deaconess receives quarterly interest payments with the return of the principal at the end of the investment term. Deaconess also requires annual reporting of financial statements and a narrative update of each project's progress and use of funds. A case study of Deaconess' investment in Urban Sprouts, an early childhood education center, through IFF, can be found on page 19.

In addition to its direct mission-related investments, the Deaconess Foundation also utilizes socially responsible investing to negatively screen out public equity investments in corporations that profit from adult entertainment, gambling, private prisons, weapons, alcohol and human rights violations in Palestine, as well as products that it has determined to negatively affect public health. Deaconess also intentionally pursues placing 5 percent of its investment portfolio in minority-owned investment firms or funds run by minority managers. To this end and on behalf of Deaconess, a third-party chief investment officer works with U.S. Trust to assist with managing the foundation's endowment. ■

ENDNOTES

76 Oldani, n.d.

77 Ibid.

78 Deaconess Foundation, 2017.



Missouri Foundation for Health

Missouri Foundation for Health (MFH) is a philanthropic foundation focused on the health and well-being of the underserved. MFH was formed in 2000 as a health conversion foundation following the transformation from nonprofit to for-profit of Blue Cross Blue Shield Association in Missouri. In 2012, the foundation began a strategic move toward a more balanced structure of funding, shifting from the traditional funding structure that focuses on prescriptive grant-making to one that is engaged in both targeted and responsive grant programs.

Show Me Healthy Housing became the foundation's first formal strategy associated with supportive housing and was its first program focused on social determinants of health. Supportive housing combines affordable housing with supportive services and is a promising approach to improving health outcomes. Show Me Healthy Housing provided gap financing to health-related nonprofit agencies for the construction of housing, as well as the provision of case management and health care services for its clients. The foundation provided grants to nonprofits across Missouri, including sites in Columbia, Hannibal, Mexico and Springfield.

Starting in 2016, Missouri Foundation for Health partnered with Corporation for Supportive Housing (CSH) to create the Show Me Healthy Housing Loan Fund. The fund, administered by CSH, has served as a mechanism for financing predevelopment costs associated with developing supportive housing across those same areas of Missouri.

MFH invested \$1.5 million into the loan fund as a program-related investment. Foundations, as part of their legal foundation designation, are required to grant, through various mechanisms, 5 percent of their total endowment each year. Program-related investments are considered part of the required 5 percent disbursement. Funds were loaned into the pool by the foundation at a rate of 1.5 percent.

A key element in MFH's decision to develop the fund was the opportunity to jumpstart additional funding mechanisms, such as Low-Income Housing Tax Credits.

The Urban Institute has compiled annual reports on program outcomes, with the Year Two Evaluation Report published in February 2018. This report has demonstrated initial reductions in health care costs alongside the provision of additional benefits to resident well-being; while promising, none of these cost reductions have been statistically significant. ■



Patriot Place provides permanent housing to homeless Veterans participating in the HUD-VASH program, a collaboration between the Columbia Housing Authority, MFH and the Truman VA Hospital.



Franciscan Sisters of Mary

In 1872, five German nuns immigrated to St. Louis and are considered responsible for building the hospital system that has become SSM Health. The Franciscan Sisters of Mary (FSM) is a congregation of Roman Catholic women headquartered in Bridgeton, Mo. Today, investment earnings cover 88 percent of the organization's expenses, and impact investing has become one of the pillars of the sisters' ministry.

Franciscan Sisters of Mary began impact investing in 2009 with the incorporation of risk-adjusted, market-rate private investments. FSM had always avoided investing in publicly traded companies that conflict with its Catholic and Franciscan values. These include businesses engaged in producing tobacco products, weapons, abortifacients and contraceptives, and adult entertainment and for-profit health care providers, among others. In 2014, FSM added to that exclusionary list and divested from fossil fuel-producing companies. FSM uses a customized indexing approach to public equities investing that allows for the creation of multiple stock portfolios that individually replicate a selected market index while syncing to FSM's exclusionary screens.

In 2012, FSM dedicated a sizable portion of its endowment—15 percent—to private impact investments.⁷⁹ FSM first undertook this work by hiring an adviser, Imprint Capital (since acquired by Goldman Sachs), to help develop a strategy for integrating private investments that would strengthen FSM's overall portfolio. Imprint Capital originally identified potential investments for FSM and conducted due diligence on both the social and financial risks and returns for each opportunity. Then, FSM chose which projects most resonated with its mission.

continued on p. 44

KEYS TO IMPACT- INVESTING SUCCESS

Private equity impact investing has allowed Franciscan Sisters of Mary (FSM) to both better diversify its portfolio and have more mission impact.⁸⁰ According to CEO and Chief Financial Officer John O'Shaughnessy, FSM's successful adoption of impact investing lies in its willingness to challenge itself to do more than avoid harm and, instead, shift assets to investments that generate positive social and environmental benefits. Another of FSM's critical strengths is that the organization has a strong understanding of both its mission and financial management. Overall, what can make or break a foundation's foray into impact investing is whether leadership truly supports the concept of impact investing and is willing to move beyond its traditional investing paradigm.

FSM currently has 18 global commitments focused on renewable energy generation, sustainable agriculture, energy efficiency, conservation forestry, environmental detoxification and sustainable land use. While most of FSM's private investments—including private equity, credit and real assets—are in funds, FSM also has three direct investments. All of FSM's private equity investments target market-rate, risk-adjusted returns based on their asset type. Since inception, FSM has maintained an impact portfolio with an annualized return around 5 percent—better than expected, considering private equity investments are generally slow to generate positive returns in early years. FSM tracks impact returns in terms of carbon emissions avoided, renewable energy generated, miles of rivers and streams protected, etc., for all of its impact investments. ■

ENDNOTES

79 Deaconess Foundation, 2017.

80 Ibid.



Mercy Investment Services

Mercy Investment Services is the socially responsible asset management organization for the Sisters of Mercy and its ministries. The Sisters of Mercy's community investing stretches back more than 40 years when several provinces began investing for the betterment of their communities. In the 1990s, the Sisters of Mercy formalized and consolidated its community investments to increase its impact organizations, benefiting the economically poor, especially women and children, and concentrating on those unserved or poorly served by tra-

ditional financial markets. The Mercy Partnership Fund (MPF) is Mercy Investment Services' global community investment program. MPF provides below-market-rate investments to mission-driven organizations working toward benefiting the economically poor. The majority of MPF's investment is deployed through loans to organizations such as affordable housing developers, cooperatives, community loan funds and international social investment funds. MPF also makes mission deposits in community development credit unions and banks.

Mercy Partnership Fund deploys capital around eight impact areas: affordable housing; business, cooperative and nonprofit financing; community facilities; education; environmental sustainability; financial inclusion and microfinance; health care and healthy food; and sustainable agriculture and fair trade. The fund currently has a portfolio of more than \$30 million, deployed across the eight impact sectors. MPF tracks impact through an annual survey of its investees, as well as annual reports and audits. ■



*Reliance Bank**

Interested in better leveraging its money to make a difference in the community, Reliance Bank, a local bank headquartered in suburban St. Louis, approached Justine PETERSEN (JP), a CDFI loan fund focused on credit building as well as consumer and microenterprise lending. What began in 2010 simply as a means of improving the bank's CRA rating has evolved into a multifaceted, collaborative relationship.

The cornerstone of Reliance Bank's work with Justine PETERSEN was founding the Small and Minority Contractor Loan Fund, a short-term capital pool specifically for emerging, minority and female contractors with no other sources of capital. As the first loan fund of its kind, the initiative was intended to target an area of significant need at the end of the Great Recession.⁸¹ According to Reliance Bank's President of Corporate and Community Banking Allan Ivie IV, "Making loans to contractors—both general and subcontractors—is risky lending because there's a lot of potential for loss."⁸² Therefore, Justine PETERSEN takes on the loans' risk based on the strength of its balance sheet and provides financial training for the borrowing contractors.

Initially capitalized at \$450,000, the revolving loan fund has since deployed \$12 million to 179 local contractors.⁸³ These 90-day notes average \$50,000 to \$100,000 and include a joint check agreement and guarantees from five general contractors. The loan fund is now financed by four banks—First Bank, Citizens Bank and Carrollton Bank, with Reliance serving as the lead. As the lead bank, Reliance not only provides the most capital but also allocates Justine PETERSEN's repayments among the other banks and coordinates reporting. The success of the Small and Minority Contractor Loan Fund has served as a model for St. Louis city's

\$10 million Contractor Loan Fund, as well as similar products in bank markets in Kansas City, Mo., and Champaign and Springfield, Ill.

Reliance Bank also loaned Justine PETERSEN \$420,000 to serve under-resourced and disadvantaged small-business owners of color. To date, these microloans average \$20,000 and assist small businesses with credit-building loan capital.

“The way to do [community investment] is not to go it alone, but to partner with the people who have their feet on the ground and know where the needs are.”

— Allan Ivie IV, *president of Corporate and Community Banking for Reliance Bank*⁸⁶

Another important part of Reliance Bank's partnership with JP is the bank's loan production office and full-service ATM at JP's main office on Grand Blvd. The loan production office, which offers all the credit products for Reliance, was the bank's first step in establishing a presence in St. Louis city.⁸⁴ The location of the loan production office has strengthened the referral relationship between the two organizations. Justine PETERSEN refers eligible clients to Reliance for traditional bank loans, thereby conserving its capital, while Reliance refers people it cannot underwrite to JP. Furthermore, Reliance Bank's ATM at JP's office is one of the most actively used ATMs in the bank's network.

Justine PETERSEN and Reliance Bank have additionally collaborated on seating their boards of directors, refinancing Justine PETERSEN portfolio properties, and working on small-business financial literacy education.⁸⁵ While Ivie serves as

continued on p. 46

*Reliance Bancshares Inc. was acquired by Simmons First National Corp in April 2019.

the treasurer of JP's board and chair of its Finance Committee, JP's CEO, Rob Boyle, sits on the bank's City Region Advisory Board.

Thanks largely to its comprehensive work with Justine PETERSEN, Reliance Bank received an Outstanding CRA evaluation from the FDIC in 2017, the first-ever Outstanding CRA rating for a locally owned bank in St. Louis. ■

ENDNOTES

81 Ivie and Evans, 2018.

82 Ibid.

83 Ibid.

84 Ibid.

85 Ibid.

86 Ibid.



SOURCE: Justine PETERSEN

Antonio Portillo is one of the first minority-owned contracting firms to benefit from Justine PETERSEN's expansion of its Small and Minority Contractor Loan Fund.

APPENDIX III: TAX CREDIT INVESTING



U.S. Bancorp CDC

In addition to providing traditional banking services, U.S. Bank operates a community development entity—U.S. Bancorp Community Development Corporation, or U.S. Bancorp CDC—that administers NMTC awarded by the CDFI Fund. These projects direct funding to low-income communities by providing investors with credits against their federal income tax.

While the NMTC program has always focused on impact investing, U.S. Bancorp CDC has recently evaluated its own impact thesis and decided to specifically invest in projects that serve to close the racial wealth gap and improve outcomes in early education, health care and employment. To fully evaluate where to target projects, U.S. Bancorp CDC looks at community-level metrics, like pre-K enrollment rates, high school graduation rates, cancer and obesity rates, and income demographics and unemployment rates disaggregated by race and ethnicity. U.S. Bancorp CDC traditionally provides its own NMTC equity and partners with other tax credit providers and CDFIs to fully fund its chosen projects.

In 2018, U.S. Bancorp CDC received \$70 million in NMTCs, which will fund 12 to 15 projects across the country. According to CDFI Fund requirements, 20 percent of the funded projects must be in “underserved” states, as determined by the CDFI Fund, and 20 percent must be in rural communities.

U.S. Bancorp CDC evaluates the success of its funded projects by looking at the number of jobs created, the wages and benefit packages of those jobs, and the number of seats created in early child-

“As a [community development entity], we are evaluated on our ability to create impact.”

— *Terra Neilson, assistant vice president of U.S. Bancorp CDC*⁸⁷



SOURCE: Theodore Floros

US Bancorp CDC supported the development of a Save a Lot grocery store in Pagedale alongside Beyond Housing through the deployment of New Markets Tax Credits.

hood education centers. However, it also uses qualitative reporting via interviews with community members to supplement its quantitative reporting.

While U.S. Bancorp CDC provides NMTC equity across the United States, it recently made a local place-based investment in the Pagedale Town Center in north St. Louis County. U.S. Bancorp CDC invested \$4.5 million in NMTC equity to assist the development of a value-priced grocery store, health center, senior apartments and movie theater, responding to resident needs and spearheaded by local nonprofit Beyond Housing. ■

ENDNOTES

87 Neilson, 2018.



Twain Financial

Twain Financial Partners is a St. Louis-based investment management firm with \$4 billion in assets under management.⁸⁸ The firm was founded by Marc Hirshman, Matt Badler, and Keith Willy in 2013 to provide management services over tax credit investments including Historic Tax Credits, Low-Income Housing Tax Credits, NMTC and Property Assessed Clean Energy financing.

Specializing in tax credits and building public-private funding partnerships, Twain Financial's business includes providing management and accounting of NMTCs, financial incentives that provide a 7-year tax credit stream to investors in real estate and business lending projects in distressed communities. In this work, Twain Financial serves as a manager and guarantor between investors who place capital in exchange for NMTC and the Community Development Entities that hold and allocate the NMTC.⁸⁹ ■

ENDNOTES

88 Twain Financial Partners, n.d.

89 Twain Financial Partners, n.d.



A E R I S

CDFI LOCATOR



Community Investment Explorer



The Forum for Sustainable and Responsible Investment



RESOURCES

- Aeris:** Company offering a rating system for CDFI financial strength
- CDFI Locator:** Opportunity Finance Network database of national CDFIs
- Community Development Venture Capital Alliance:** Network of community development-related venture capital funders
- Community Investment Explorer:** Federal Reserve Bank of St. Louis database tool used to track the use of CDFI funding
- Confluence Philanthropy:** Network of mission-driven investors
- GIIN:** Organization providing tools to potential and current impact investors
- Good Capital Project:** Organization dedicated to developing the impact-investing ecosystem globally
- ImpactAlpha:** News organization dedicated to reporting on business ventures that incorporate social and environmental value
- ImpactBase:** Searchable database of impact-investing vehicles
- Impact Finance Center:** Team offering education, research and advisory services to advance impact investing
- ImpactSpace:** Database for impact-investing funds and direct placement opportunities
- Inclusiv:** Network of community development-focused credit unions
- IRIS:** Catalog of impact metrics
- Mission Investors Exchange:** Network of foundations engaged in impact investing
- Opportunity Finance Network:** National network of CDFIs
- Private Investment Benchmarks:** Cambridge Associates reports on returns for impact investing in private equity, venture capital and real estate
- Social Venture Circle:** Network of early stage impact investors
- Toniic:** Global network of impact investors
- Transform Finance:** Network of investors that want to deploy capital for social change
- US SIF:** Network of investors interested in positive social and environmental returns
- The Wells Foundation:** Organization offering training for foundation leaders on undertaking impact investing

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