The Investor's Toolkit

Generating Multiple Returns Through
A Unified Investment Strategy

Summer, 2004

Document Overview:

This paper offers an introduction to the concept of managing financial assets using a strategy that maximizes not only economic performance, but also social and environmental returns. Here we explore the current state of this evolving investment approach, as well as the logic driving its inevitable expansion. This work is intended to broaden understanding of the diverse investment vehicles presently available, as well as to analyze how these trends might play out for different types of investors—and the future of financial asset management as a field.

Section One is a discussion of the rationale behind (and fundamentals of) investing for multiple returns. This concept is called a “Unified Investment Strategy,” an approach to financial asset management that can be used by investors seeking to balance market-rate investments with below-market-rate and/or philanthropic investments. Such an investment approach attempts to maximize the value creation potential of a portfolio and generate multiple returns. This strategy simultaneously challenges assumptions imbedded in traditional investment approaches and highlights the disadvantages of limiting asset management criteria to economic returns and financial performance alone.

Section Two presents a continuum of investment instruments available to asset managers and investors seeking to maximize the full, leveraged value potential of their portfolio. These instruments range from mainstream market-rate investments (both equity and debt) to a variety of below-market-rate and concessionary rate instruments. This section explores how grants, loans and market-rate investments may *all* be structured as part of a single unified portfolio, generating multiple returns in pursuit of the investor’s overall goals. Here, we also touch on the role of intermediation in creating greater efficiencies for both investors and investees in the emerging ‘social capital marketplace’.

Section Three concludes the main body of the paper with a profile of an institution moving toward a unified investment strategy and presents specific scenarios of how different types of investors (by making use of the various instruments presented in Section Two) might structure a single portfolio of investments guided by a Unified Investment Strategy.

Audience:

While the authors hope this paper will be of interest to a wide range of readers, our primary audience consists of fund managers, foundation and pension fund chief financial officers, presidents of organizations with significant endowments, board members and trustees sitting on investment committees of endowed institutions and other individuals engaged in oversight and management of institutional financial assets.

We also hope this document will be of interest to ultra high net worth individuals seeking to increase the impact of their asset management strategies in create an optimal blend of returns.

The readings offered in the appendix, which directs the reader to the Blended Value Map, are suggested as additional sources of information regarding these issues.

This paper is offered to the reader as an introductory overview of a developing and dynamic area of financial asset management. This paper is not, however, offered as specific, direct financial investment advice. The exact strategy best pursued by individual readers should be developed in partnership with investment advisors and asset managers committed to the goals of a Unified Investment Strategy.

While this document presents specific examples of investment instruments and strategy, nothing contained herein is meant to be or should be construed as endorsement of any specific investment instrument or fund.

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Introduction

Traditionally, financial investing and the creation of economic value have been viewed as activities separate and distinct from efforts to create social value and positive environmental impacts. Perhaps best promoted by Milton Friedman of the University of Chicago,[1] the conventional wisdom has been that the social responsibility of companies and investment managers is fulfilled by simply generating the greatest amount of financial return to investors possible—leaving it to each individual investor to then decide how best to "do good" with wealth thereby created. This notion of economic integrity has served our nation well, creating vast economic wealth over more than two centuries.

While frameworks separating the practice of doing well from that of doing good have been effective, they have also failed us in substantial and significant ways.

The social and environmental impacts of investment decisions have historically been considered 'externalities', superfluous to the investment decision equation. In truth, the goal of creating economic wealth is seldom pursued in the abstract. It is a means to an end. We seek to be "wealthy" in order to have choices with regard to how we live our lives and pursue our goals. We seek wealth to provide for ourselves and our immediate families. We attempt to build thriving economic systems in order to assure we live in communities and societies that can provide, at a minimum, economic support for all members and, ideally, economic opportunity that will allow each individual to provide for themselves and achieve their greatest potential. In sum, we use economic strategies and financial tools to achieve not simply financial returns and economic vitality, but we use economics and finance as basic means to an end—an end that is fundamentally married to social well being for our community and personal fulfillment for ourselves.

We have, however, a significant problem:

Oftentimes our use of an economic tool conflicts with the task and purpose for which that tool is ultimately being put to use.

There are many ways in which this reality plays out, but let's consider a simple example:

> Caroline Williams is the Chief Financial Officer of the Nathan Cummings Foundation, a private foundation with assets of

[1] Friedman, M. 1970, "The Social Responsibility of Business is to Increase Its Profits." *The New York Times Magazine*, 33.

approximately $350 million. Her responsibility is to protect and steward the financial assets of the foundation in order for the philanthropy to make grants to organizations addressing a variety of social and environmental problems in society. In preparing for a board meeting, Ms. Williams was reviewing both the foundation's investment portfolio and its grants docket. She observed that the foundation held 31,600 shares (market value: $717,952) of Smithfield Foods—the largest hog producer and pork processor in the world—while at the same time the foundation was making grants worth $650,000 to nonprofit organizations confronting the environmental practices of agri-business, for which hog farming is a central concern.[2]

According to traditional economic wisdom, Ms. Williams should simply ignore this obvious conflict between organizational mission and investment holdings—but the challenge is obvious:

If the corporate purpose of the foundation is to advance environmental and social benefit for society, that purpose is not served by passively investing in other institutions that may be creating negative impacts on society, even if those investments perform well financially.

The investor in Smithfield Foods has not just generated financial returns in fulfillment of her fiduciary responsibility. She has participated in a complex system of investing and value creation that generates *multiple* returns with financial, social and environmental implications. In recognition of this reality, the investor has before her four options. She could either:

- Ignore the investment, viewing it as completely separate from the institution's program goals;
- Divest the institution completely in order to "keep our hands clean";
- Become an engaged investor, holding the stock, but using their status as shareholder to raise issues regarding corporate performance with the firm's managers and other shareholders; or
- Provide the shares or proxy rights to an advocacy group able to raise issues as part of a larger, coordinated shareholder effort.

[2] "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming," by Jed Emerson. Stanford Social Innovation Review, Summer 2003.

And, indeed, from both a fiduciary and ethical standpoint, increasing numbers of investors are confronting the need to define investment returns as a proposition that blends economic and social value creation.

There is also, however, an even greater issue of concern that transcends this initial challenge, and that is the following:

If investors engage in asset management strategies in order to achieve a variety of outcomes (financial return and maintenance of corpus, social and personal well-being in the future, generation of funds in order to support future "worthy" causes of interest to the investor, and so on), would it not also follow that investors should consider how best to leverage their *full* assets in pursuit of their ultimate goals?

This challenge is one all investors must address, but is perhaps most stark in terms of foundation asset management whereby the traditional practice is to use 5% of the corpus's net income to support grant making activities, while 95% of the foundation's assets are managed with little to no consideration of the overall institutional goals of the foundation. The outcome? Less than five percent of the foundation's assets are driving 100% of the institutional mission[3], while 95% of the investor's assets are *at best* neutral with regard to supporting the overall investment goals of the foundation and often are actually invested in companies that engage in practices that directly contradict the mission of the institution.

This is akin to an iceberg with the vast majority of its mass submerged below the water line and only an icy 5% 'tip' visible. The rest of the iceberg—the majority of a foundation's corpus—is lurking below the waterline, undoing the value—and values—investors strive to create.

Put another way, imagine a baseball team manager choosing to send just two of her three dozen players through the rigors of spring training, regular practices and coaching. The rest of the team members would be enrolled in "anti-training," in which they'd be encouraged to park on the clubhouse couch all day watching Dukes of Hazard re-runs, and then go drink like fish at the local pubs till the wee hours of the morning every night. You can imagine how disastrous the team's performance, as a whole, would look on the field—even if those two exemplary players consistently hit homeruns.

Tying both the "iceberg" and the "anti-training" metaphors to our discussion, it is hard to argue that leaving such a huge portion of one's

[3] It is *less* than five percent for some foundations since they are allowed to charge off all administrative and operating expenses of the foundation against this federally mandated 5% payout requirement.

assets in “anti-training” mode “below the waterline” maximizes the ability to attain investor goals. Whether for foundations to fulfill the fiduciary responsibility of their charitable charter, or for all investors who wish to have all their assets in line with their social goals—the point is to win the game, not just have two players out on the field looking good.

But it is possible to overcome the “capital chasm” between long-term investor goals and short-term investment practices—to develop and pursue strategies that balance financial returns with the creation of positive social and environmental value. Such investors understand that portfolio performance is not simply a function of financial return, but multiple returns generated through the effective management of a variety of investment instruments providing a balanced return over time. As will be explored in the following pages, when one considers the investments of grant dollars together with equity or debt instruments, financial returns when viewed in isolation from the rest of the portfolio may well be below ‘market rate’[4] on a risk-adjusted basis for some portion of their overall portfolio. This is due to the fact that at one end of the continuum we have grant making and at the other investment in pursuit of risk adjusted financial returns. In between is a range of potential investment instruments.

Aron Thompson, of the A.G. Edwards Seattle Financial Group, has framed this point well in terms of foundation asset management practices when he observes that,

> “What is particularly perverse about (traditional approaches to foundation asset management and grant making) is that grant making is, explicitly or implicitly, classified and treated as an expense! The most important investments that a foundation makes are in the nonprofit organizations and social/enviro causes that are supported by way of grant making. The investments within the foundation’s financial portfolio only have value in so far as they are supportive of those grants, acting as a financial facilitator of them. It follows from this that grant making is not a debit. The money that is granted to nonprofit causes is not a “loss” to the foundation and should not be thought of as such. Instead, it is an investment, in fact the most important investment that a foundation makes, and is the very reason for the foundation’s existence.”[5]

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[4] ‘Market rate’ is defined as a return on investment that matches generally accepted principles of risk and return at any given time for an investment in the financial markets. This is representative of Conventional Wisdom, and is not embraced but duly noted by the authors.

[5] Prudentia (The Return to Prudence): An essay on the foundation of philanthropic asset management,” a paper by Aron M. Thompson, AGEdwards Seattle Financial Group.

Whether conceptually ready to make use of it or not, each and every investor has a body of financial assets at work in society, with a wide range of potential deployment possibilities. When viewed in aggregate, each instrument of asset management (from equity investments to low-interest loans to grants) generates value in pursuit of investor goals. They are all part of a single, unified whole.

What is also clear is that a growing number of investors are executing strategies that intentionally seek financial *and* social/environmental value:

- Ø The socially responsible investment (SRI) market has grown from $40 billion in 1984 to over $2.3 trillion in 2003, reaching 12% of all professionally managed assets, as pension funds, institutional investors and others have taken a more active stance toward shareholder involvement or introduced one or more social screens into their investment selection process. These SRI strategies consist of issue screening, shareholder proxy voting and grassroots community development investments.
- Ø Community development investment has increased to $14 billion
- Ø And private equity "blended funds" seeking social and environmental value is estimated at $2 billion. [6]

While this growth has been impressive, most investors continue to struggle with how best to fulfill responsibilities of financial stewardship while at the same time fulfilling obligations to promote the social and environmental interests of the investor, whether an individual or institution.

For fund managers to successfully steer a portfolio of investments to achieve its full potential they must do two things:

First, they must re-conceive their overall investment strategy to allow for more than simple financial performance consideration.

Second, investors need a comprehensive understanding of the array of investment instruments available to them to construct their portfolios.

This paper is offered as a first step in this process of re-positioning portfolios of financial investments to successfully pursue and capture the full value sought by investors. We begin in Section One with a brief discussion defining the Unified Investment Strategy and how that idea

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[6] *2003 Report on Socially Responsible Investing Trends in the United States*, Social Investment Forum, October 2003. The private equity figure comes from the RISE Report of 2003.

can inform one's thinking with regard to how best to oversee and structure assets under management. In Section Two, we present a sample continuum of investment instruments upon which potential investors may draw. And in Section Three, we present investment scenarios for how various investors might approach this opportunity for maximizing the full, blended value of their portfolio.

Is this paper a recipe for success in blended value investing? *Of course not!* As is true of all investing, the specific mix of instruments and levels of return will differ from investor to investor. Furthermore, the time horizons, risk profiles, return requirements and ultimate 'lens' each investor looks through to define their goals and vision of success will serve to make each strategy unique.

This paper is offered as an introduction to a dynamic and still-emerging set of practices that promise investors an opportunity to achieve their ultimate goal:

The creation of a well-balanced portfolio that **"**does well,**"** by producing healthy financial returns in a sustainable manner**—**but that also **"**does good,**"** by furthering social and environmental goals.

Section One: The Unified Investment Strategy

The Unified Investment Strategy is founded upon the knowledge that the most effective investment strategy seeks to identify an investor's full array of available assets (both financial and non-financial) and assertively deploy those assets in support of the individual or institution's mission, thereby achieving the financial, social and environmental goals the investor seeks to achieve.

While there is an array of assets controlled by organizations and investors, for the purpose of this paper we will focus solely upon financial assets of funds, investors and foundations—and how best to achieve the maximum leverage from those financial assets.[7]

Financial assets may be broken into three general capital categories:[8]

1. Capital that generates a blend of social and financial return, requiring a market-rate risk-adjusted financial return. Assets either are not damaging to the goals of the investor (e.g. screening out industries deemed to be in opposition to overall investor goals), or may be more proactively positioned to align with an investor's goals (e.g. a company or investment fund creating jobs in a specific region).

2. Capital generating a blend of social and financial return, but accepts financial returns lower than the risk adjusted market rate, in exchange for greater social returns. (e.g. a loan to a affordable housing development at concessionary rates).

3. Capital generating a core mission aligned social return, but no financial return to the investor (other than, arguably, the tax deduction value at the front end). The most common form of this is a grant.

[7] For an expanded discussion of the array of assets available to organizations, please see both *The 21st Century Foundation: Building Upon the Past, Creating for the Future* and *An Essay in Two Parts: Total Foundation Asset Management—Exploring Elements of Engagement within Philanthropic Practice*, both of which are available at www.blendedvalue.org.

[8] The authors find utility in this framework, but readers may correctly observe that a quasi-continuum exists, with the line between one or the other category blurred as the instruments available in the emerging social capital market become increasingly numerous and complex.

Each of these types of capital is invested by making use of different investment instruments that, when considered in total, make up the investment portfolio of any given unified investor (whether individual or institutional). For example, capital in the third category (generating social return, but no financial return) is a grant or other unrecoverable expenditure of funds, while capital in the first category (full market rate) is more likely to be public equity or fixed income holdings in mainstream companies, or other traditional market-rate investments.

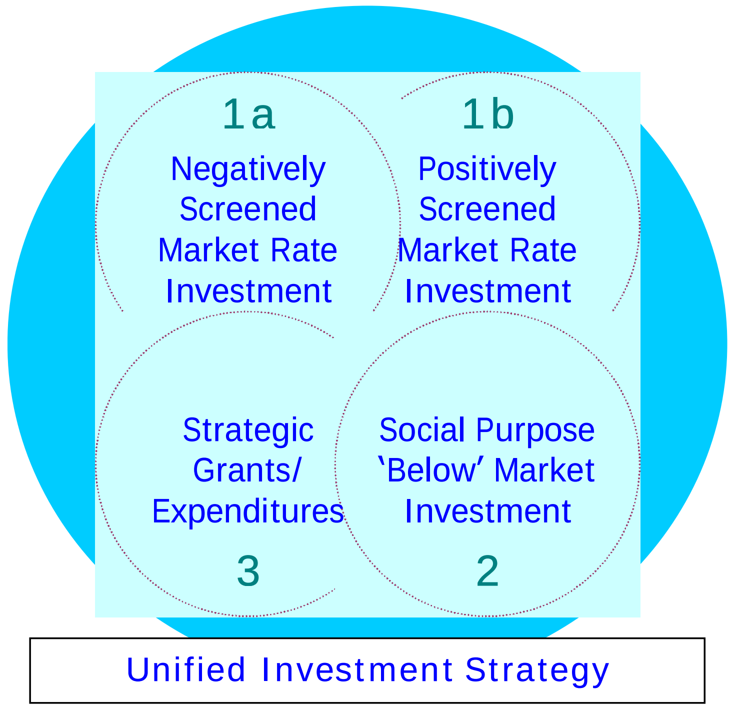
Within each of these three capital categories, one may structure a variety of investment instruments (the focus of Section Two). However the main point for our present discussion is that a Unified Investment Strategy would view *all* these investments as part of a single unified investment strategy, consisting of a single portfolio of investments. The *combined* performance and returns of these holdings is assessed with reference to the overall goals of the investor.

Therefore, since the goal of increasing numbers of 21st Century investors is to generate both financial and social returns, the most effective strategy must seek to maximize the full contribution value of all investments made by the investor. Financial returns are understood to exist side-by-side with human betterment and environmental stability.[9]

We now turn to a discussion of the specific instruments each capital category may draw upon in support of this blended portfolio of investments.

[9] For an expanded discussion of this "blended value proposition," please see www.blendedvalue.org.

Section Two: A Continuum of Investment Instruments



The three capital categories draw upon an array of investment instruments that, when viewed in concert, make up an investment portfolio. The first is by far the largest and most well-known—screened market-rate risk-adjusted investment vehicles. This first category can be conceptually broken down to two areas of activity, one more passive and one more active.

The second category is Social Purpose 'Below Market' Investments. These are equity or debt investments that offer lower than market-rate risk adjusted financial returns (concessionary returns), in exchange for greater social value, and includes Program Related Investments.

Finally, there is unrecoverable strategic grant making and other direct program expenditures.

These investment instruments and strategies may be understood as follows:

1. <u>Capital that generates a blend of social and financial return, requiring a market-rate risk-adjusted financial return.</u> There are two general classes of assets:

   A) Assets that are generally supportive of (or not damaging to) the goals of the investor:

   Instruments/Strategies

   Ø Mainstream, publicly traded debt or equity investments screened to ensure 'do no harm' positioning in relation to an investor's goals
   Ø Social Value Notes (defined as Equity Linked, Zero Bonds with an SRI Index Option)

- Ø Proxy voting with shares owned in portfolio holdings to retain/increase shareholder value by influencing management to abstain from activity that is not in line with the goals of the investor
- Ø Venture capital similarly screened against negative criteria
- Ø Certificates of deposit in banking entities that are CRA screened
- Ø Other non-publicly traded assets such as real estate

B) Assets more actively aligned with an investor's goals:

Instruments/Strategies

- Ø Positively socially screened portfolios of securities seeking competitive financial returns, by proactively seeking out companies that create value in accordance with the investor's goals such as job creation in a particular region or community, alternative energy products, etc.
- Ø Engagement in proxy voting and shareholder advocacy around proactive positive issues of social change or value creation
- Ø Positively screened social venture capital and private debt in pre-IPO companies
- Ø Market-rate certificates of deposit in Community Development Banks or Credit Unions, other debt instruments such as Fannie Mae and Freddie Mac agency paper and certain municipal bond offerings that are aligned with investor's goals
- Ø Market-rate real estate with a mission-related purpose

Though the range of market-rate risk-adjusted investment activity may be viewed as falling into these two buckets, instruments are organized around the *intention* of the investor, rather than the actual characteristic of the vehicle. For this reason some investors will find it easier to simply conceptualize their market-rate activity as a continuum ranging from 'do-no-harm' investment to proactively aligned investment.

In examining the broad spectrum of market-rate investment vehicles, we begin with the understanding that all business practice has the potential to maximize economic and social/environmental performance—yet many companies do not operate with the intent of advancing corporate policies in a manner that will assure full performance of each of its areas of value creation. The role of investors in raising issues and concerns through the use of <u>proxy voting rights</u> is an important one to the overall goal of building companies that thrive economically and meet their obligations to larger stakeholder groups.

Despite this fact, many investors "sign over" their voting rights to fund managers who exercise those rights with no reference to other considerations of value creation aside from simple economic performance. A new booklet, *Unlocking the Power of the Proxy: How Active Proxy Voting Can Protect Endowments and Boost Philanthropic Missions*, provides guidance on developing policy and engaging in direct management of proxy voting as a tool to advance total investor mission.[10]

In addition to leveraging one's proxy rights, investors may also work with fund managers to construct portfolios of investment with returns and performance assessed on both a financial and social/environmental basis. An increasing number of asset managers offer services to assist in this process. For example, for its European clients, Credit Suisse First Boston's private client services group offers not only its own financial analysis of companies, but has partnered with an environmental research organization to combine both social and technical market data that is then used by clients to help guide investment decisions. Another example of this approach is the "best in class" rankings offered by Innovest to those constructing investment portfolios.

For many investors, constructing a "customized" portfolio may not be possible. For these investors, investing in existing mutual funds consisting of the stocks and bonds of corporations that have been screened and are tracked for their environmental/social performance offers an effective way to diversify their investments. [11]

Social responsible investment (SRI) portfolios seeking competitive financial returns remain the standard form of what has traditionally been referred to as SRI. It would appear that they are clearly worth exploring as one component of a Unified Investment Strategy. In a recent report released to its clients by Cambridge Associates, it was stated that, "…most studies conclude that socially screened index portfolios have attained risk-adjusted returns roughly equivalent to those of unscreened portfolios..." and later in the same report the statement is made that, "At a minimum, these examples (of global financial risk exposure), suggest that it might be prudent for long-term investors to become familiar with and engaged in consideration of a broader set of issues other than those conventionally regarded as purely financial."[12]

Social Notes, Equity Linked, Zero Bonds with an option to buy an SRI Index, provide another innovative way to adapt traditional vehicles to

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[10] The booklet, published by Rockefeller Philanthropy Advisors and the As You Sow Foundation, is available as a free PDF download both at: at www.rockpa.org and www.asyousow.org

[11] To explore the array of funds available and to compare their performance over time, www.socialfunds.com provides extensive information.

[12] Socially Responsible Investing, Cambridge Associates, 2003. The first quote is taken from point four of the Abstract and the second from the final sentence on page 14.

alignment with the social goals of investors. These instruments participate in the appreciation potential of the markets, while providing a degree of insulation against losses. [13]

Social Venture Capital Funds are "angel funds" that invest directly in early stage, small to medium enterprises. A study by McKinsey and Company, found that "...over the ten year period we examined, a portfolio of investments defined as socially responsible generated returns of 8 to 14 percent. That is lower than the rate typically earned by "angel" investors...but comparable to capital market returns."[14]

Screening depository institutions for cash management practices along the lines of the Community Reinvestment Act performance presents another component of the value chain—providing a basic negative screening stance to 'do no harm'. For more proactive and targeted value creation, placing investor assets in federally insured accounts with community development banks and credit unions provides depository options for foundations and others seeking to preserve assets. The yields on these deposits, however, may not be as aggressive as found elsewhere. The CDARs program, introduced in 2003, now allows investors to receive federal insurance coverage for deposits of up to $5 million.[15]

A growing amount of market-rate secondary market activity is available in the form of mortgage-backed securities (MBS) issued by government-supported entity such as Fannie Mae and Freddie Mac. Currently, over $2 trillion in Freddie Mac ($745 billion) and Fannie Mae ($1.3 trillion) bonds are available on the open market. And, in recent years, certain mutual funds specializing in these and other rated debt offerings have sprouted up, including the CRA Fund ($436 million in assets) and Access Capital Strategies Community Investment Fund ($310 million).

Finally, market-rate risk-adjusted returns in real estate provide a flexible strategy for diversifying into alternative asset classes, while maintaining alignment with investor goals. Land, watershed or historic preservation and development zone retail or manufacturing activities are just a few of the obvious alignments that can also provide for considerable appreciation potential if responsibly managed over time.

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[13] See "Frontiers in Social Investing and Finance: Exploring the Social Value Note," by Jed Emerson and Mehmet Beceren, at www.blendedvalue.org for an expanded discussion of this promising potential instrument.

[14] "*A Halo for Angel Investors*," by Steven Carden and Olive Darragh, The McKinsey Quarterly, 2004, Number 1. Also, see Investors Circle for information on these types of funds and investment groups.

[15] See www.natfed.org and www.communityinvest.org for listings of US-based insured community development depositories. Also note www.cdars.com.

2. Capital generating a blend of social and financial return, but that accepts financial returns lower than the risk adjusted market rate, in exchange for greater social returns. (This form of capital investing is generally referred to as community investment or Program Related Investment, as defined by the IRS code governing private foundations, and such investments usually target nonprofit corporations, but may also be directed to for-profit corporations).

   Instruments/Strategies

   - Ø Community development investment notes, loan guarantee funds and other fixed-rate investments in microfinance and CDFI[16] entities
   - Ø Community Development Venture Capital
   - Ø Deposits in community development banks and credit unions at below market rates
   - Ø Other direct lending to nonprofit facilities or enterprises, or real estate (e.g. land preservation), at below market rates
   - Ø Equity-like long term recoverable grants into nonprofits to provide risk capital

Often referred to in general terms as Program Related Investments (PRIs)[17], or concessionary investments, this category is composed of a broad array of below market-rate loans or other investments made to nonprofit or for-profit entities with measurable social value creation. In the case of foundation investors, the loans themselves may be credited against the foundations 5% grant payout requirement and can take any number of forms with regard to the actual terms and structure of the investment. By definition, the intent of a program related investment must be to further the mission of the foundation and such PRI decisions cannot be taken in order to maximize financial return. Although there is no cap on the maximum return that can be earned on a PRI, such investments fall outside the 'prudent investor' considerations. Solid background information on how investors can develop a PRI strategy and structuring such investments may be found at the Council on Foundations (www.cof.org).

Community development investment notes and bonds provide a way for fund managers to invest in directly aligned social and economic value creation, while benefiting from diversification, professional management

[16] CDFIs are Community Development Financial Institutions, as defined by the Dept. of the Treasury's CDFI Fund. See www.cdfifund.gov.
[17] It should be noted, however, that this term has specific reference within IRS tax code and such loans have a set of specific requirements they must meet to be officially considered as such.

and, in some cases, security enhancement. CDFI intermediaries that are demonstrating an increasing track record of successful deployment of assets offer such notes or bonds.[18]

In addition to these types of pooled vehicles, direct investment at a fixed-rate into any number of community development loan funds or community development venture capital funds afford a more limited diversification strategy. Many investors have sought investment opportunities specific to their community and value the direct social impact attained.

Deposits into community development banks and credit unions at concessionary rates also fall into this category. Many foundations hold a variety of CDs as a part of their overall asset management strategy—yet many are unaware that Shorebank of Chicago offers insured Certificates of Deposit to investors, and that *foundations may apply those investments against their 5% payout requirement.* Many foundations hold certificates of deposit in mainstream banking institutions as part of their traditional cash management strategy. Foundations might also work with regional development banks to pursue this under-utilized approach.

Loan guarantee funds are also an avenue for fund managers seeking to leverage the impact of their assets, but also generate some financial returns. Pledged assets may either remain within the investor's financial institutions or are held at a designated bank, while continuing to pay interest to the investor. A like amount (or leveraged amount) is then made available for community development entities that otherwise would not have access to capital on reasonable terms. As an example of this approach, Unitus is an organization investing in high-potential microfinance institutions with the goal of increasing the number of individuals reached through microfinance. The Clara Foundation has provided a $1 million loan guarantee to Unitus that collateralizes a line of credit that is then used to underwrite debt financing offered by Unitus.[19]

It is important to note that relatively subtle variables can delineate an asset belonging to this category rather than from the former market-rate category. It may simply be a question of instruments carrying a longer, non-traditional time horizon or a greater degree of risk. The financial return may be comparable to certain market rate instruments on the surface, but when carefully matching risk and/or term to other market-

[18] For example, Calvert Social Investment Foundation has been successfully offering its Community Investment Note, and Community Reinvestment Fund has offered its bonds for many years. See www.calvertfoundation.org and www.crfusa.org.
[19] www.unitus.org

rate instruments it becomes apparent that the return may not be fully risk adjusted. Such investments may have a longer term time horizon in order to allow the organization (whether nonprofit or for-profit) an extended period of time to payoff the loan, or higher risk may be expressed as subordination of the investment to other senior obligations or other factors such as non-compensated country risk. Why do investors take on this risk? Leverage and social impact must be the answer!

3. Capital generating a core mission aligned social return, but no financial return (other than the tax deduction value at the front end).

   Instruments/Strategies:

   - Ø General operating support and capacity building grants
   - Ø Project specific grants
   - Ø Seed grants, research and development grants
   - Ø Venture philanthropy funds
   - Ø On granting intermediary funds
   - Ø Other programmatic expenditures

Of note, issue-based grant pools administered by professional intermediaries (e.g. venture philanthropy and other granting funds), are an emerging model that may have significant benefits. As George Overholser noted in recent comments to the authors,

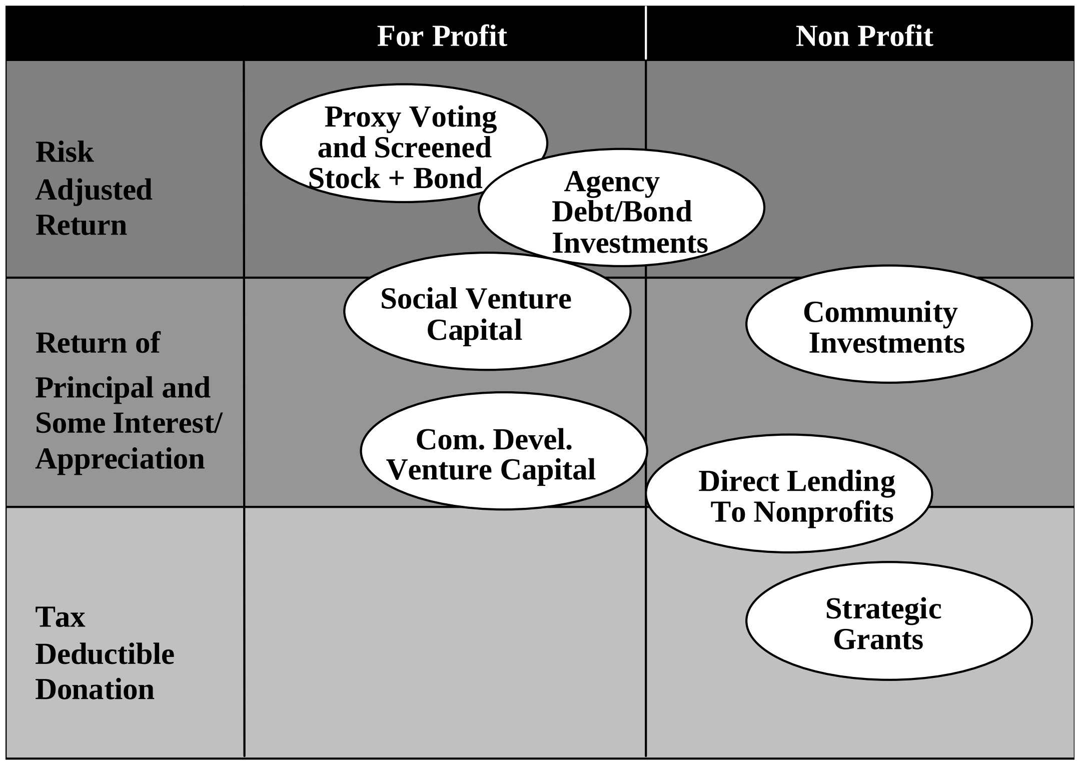
> "These "grant-making products" could have a huge impact by creating performance-based environments. It could also allow expert intermediaries to mass scale, so they can manage enough philanthropic volume to be able to afford to measure and report performance in a transparent way, and still have low overheads as a percent grant-making."

Regardless of the form that they take, these applications of capital may well be considered in concert with both concessionary and market-rate investments.

As numerous other papers have thoroughly explored the broad spectrum of grant making, this paper's discussion will be limited on this category. Suffice it to say that financial asset deployment that does not generate direct financial returns to the investor, even in a concessionary manner, is a critically important aspect of a Unified Investment Strategy.[20]

[20] Please see www.blendedvalue.org for an overview of Strategic Grantmaking practices, resources and leadership examples.

Taken in total, these various forms of instruments and strategies fit together within a Unified Investment Strategy:



The following matrix expands on the previously presented categories of capital, and offers more detail regarding the instruments an investor may draw upon.

Market-rate Instruments/Strategies	
Proxy Advocacy of Publicly Traded Investments *Investee*: Publicly traded stocks and bonds *Investor:* Average investor, HNW investor, faith-based, institutions	*Background:* Any investor making use of proxy voting rights of shareholders in order to raise concerns regarding corporate practices. *Expectation:* Risk adjusted financial return with shareholder "influence" on corporate policy and practice, delivering mission aligned social impact.
Selected Examples: [21] A number of facilities exist for investors to coordinate proxy voting along mission related issues, including; Institutional Shareholder Services (www.issproxy.com), the Investor Responsibility Research Center (www.irrc.org) and the Interfaith Center on Corporate Responsibility (www.iccr.org). They generate reports that provide background issues and discuss the annual docket of proxy votes along mission related lines. Recent shareholder actions have yielded the following results: Environmental: Dell Computer agrees to set recycling goals Home Depot phases out sales of old growth timber Coca Cola agrees to increase plastic recycling rates from 0% to 10% Health: 3M Co. stops accepting tobacco advertising on billboards Baxter International phases out use of PVC in intravenous devices Heinz removes genetically engineered ingredients from its baby foods Human Rights: Pepsico and oil giant Arco withdraw operations from Burma Community Development: Citigroup curbs predatory lending at a mortgage subsidiary that had targeted low income homeowners equity[22] *Selected Resources: www.shareholderaction.org, www.asyousow.org, www.foe.org, www.proxyinformation.com, www.foundationpartnership.org*	

[21] Examples from "Unlocking the Power of the Proxy", a recent how-to guide produced by As You Sow Foundation and Rockefeller Philanthropic Advisors, available at http://www.asyousow.org/

[22] Authors note that though proxy voting has had some impact on Citigroup's activities, they are still not clear of the predatory lending debacle which includes tens of millions of dollars in settlements and continued restructuring of practices.

Socially Responsible Screening of Publicly Traded Investments *Investee:* Publicly traded stocks and bonds *Investor:* Average investor, HNW investor, faith-based, retirees, institutions	*Background*: Typically mutual funds or separate account management of publicly traded stocks and bonds. These are aligned with mission in that managers may screen out of portfolio holdings in companies that produce deleterious products (i.e. 'do-no-harm'), and screen in companies with good environmental and/or labor practices or actively look for positive attributes in companies. *Expectation*: Risk adjusted financial return, general mission alignment of investments reconciled with societal goals

Selected Examples:[23]

Equity Fund: The Winslow Green Growth Fund (ticker WGGFX, www.wggf.com), with $67 million in assets, has performed in the top 1% of its category for the trailing 5-year period, returning a 22.64% annualized return per year, compared to 2.3% for it's benchmark Russell 2000 Growth Index. It is an aggressive growth equity portfolio seeking environmentally effective investing. The Fund invests primarily in domestic securities of small to mid capitalization companies.

Balanced Fund: The Green Century Balanced Fund (ticker GCBLX, www.greencentury.com), with $58 million in assets, has also performed in the top 1% of its category for the trailing 5-year period, returning 12.9% annualized, versus 3.11% for the Lipper Balanced Fund Index. It invests primarily in the stocks and bonds of select companies that have clean environmental records, many of which also make positive environmental contributions.

Bond Fund: The Calvert Social Bond Fund (ticker CSIBX, www.calvert.com), with $212 million in assets, seeks a competitive level of income through investment in fixed-income securities issued by corporations, governments and government agencies. Screens include: having a safe and useful product, reducing impacts on the environment, fair treatment of employees and 1% allocation to community development investments. In the top 13% of all bond funds in its category, it has returned 7.45% annualized, versus 6.45% for its aggregated index.

Separate Accounts Management: Numerous money managers offer services to create customized portfolios of stocks and bonds that are screened for social concerns. Examples include; SKBA (www.skba.com), Trillium Asset Management (www.trillium-invest.com), Walden Asset Management (www.waldenassetmgmt.com), Clean Yield Asset Management (www.cleanyield.com), and many others.[24]

Selected Resources: www.socialinvest.org; www.socialfunds.com

[23] Fund descriptions and performance data for top rated 'social' fund in each category as of 3/31/04: Source www.socialfunds.com. See site for a more complete listing.
[24] See http://www.socialfunds.com/mm/chart.cgi?sfChartId=1 for a more complete listing of firms.

Socially Targeted Market-rate Investments *Investee*: Publicly traded or near publicly traded instruments directed to benefit communities. *Investor:* Banks, foundations, institutions	*Background*: Public and private instruments, held individually or in funds, such as private equity funds, mortgage-backed securities or non-profit bond offerings with specific social or environmental targets. Includes secondary market activity of Microcredit, and Bank and Credit Union depository offerings. *Expectation*: Risk adjusted financial return, targeted social return, intent is for blended value without appreciable concessionary aspects, with a community development oriented positive impact.

Selected Examples:

Community Development Agency Fund: Access Capital Strategies Community Investment Fund (DFSand@aol.com) is a closed end fund investing in rated Fannie, Freddie and other mortgage and debt related securities supporting affordable housing and economic development activity around the country. It is currently at $310 million in assets, and has returned 6.4% annualized over the last 5 years, compared to its benchmark of 80% MBS and 20% 1-10 Treasury index of 6.87%.

Community Development Bonds: Community Reinvestment Fund (www.crfusa.org) has issued over $200 million in community development bonds that package small business, affordable housing and community facilities lending portfolios from CDFIs throughout the US. They are security enhanced and offered at the matched term treasury rate, plus 185-250 basis points of premium.

Community Development Bank CDs: Larger community development chartered banks and credit unions such as Shore Bank (www.sbk.com), Louisville Community Development Bank (www.morethanabank.com), Shore Bank Pacific (www.eco-bank.com) and Self Help Credit Union (www.self-help.org) offer market-rate CDs and deposit options for cash management (at around the national average for tradition depository institutions), that are directly lent to the low-income communities that they serve.

Selected Resources: www.socialinvest.org, www.socialfunds.com

<table>
<tr>
<td>Social Venture Capital into For-profit Businesses
Investee: For-profit small business

Investor: HNW Investor, foundations, corporations</td>
<td>Background: Investment placed into privately held companies, whose business generates positive social benefits.

Expectation: “Patient capital investors” could walk away whole with up to market rate venture or equity market returns. While some may be successful, many generate modest earnings, particularly compared to risk to investor.</td>
</tr>
<tr>
<td colspan="2">Examples:

Clean Tech Fund: Expansion Capital Partners (www.expansioncap.com) is a venture capital fund that invests in expansion-stage clean technology enterprises, which present compelling risk-return profiles and are outstanding corporate citizens. Currently with $10 million in assets, and in early stages of activity, this fund does not have a return track-record yet

Real Estate Fund: Urban America (www.urbanamerica.com) is a private real estate partnership whose purpose is to acquire and develop retail and office space in inner-city neighbor-hoods, including federally designated enterprise zones and enterprise communities, with over $2 billion of historic investment pipeline activity.

Microcredit LPs: MicroVest (www.microvestfund.com) is a debt and equity fund that invests throughout the developing world in leading microfinance institutions. It has raised over $10 million in limited partnership units and remains open for the remainder of 2004 for additional equity units. It will continue to raise debt throughout the 10 years of the LP and is projected to grow to between $35 million and $100 million. MicroVest targets a 9.5% net return on the portfolio, and after management expenses of ~3%, the projected IRR to investors is 7-8% (including equity leverage).

Resources: www.riseproject.org</td>
</tr>
</table>

<table>
<tr><th colspan="2">Concessionary Rate Instruments/Strategies</th></tr>
<tr><td>Community Investment
Investee: Community development non-profits.

Investor: Average investor, HNW investor, faith-based, foundations, corporations, various institutions</td><td>Background: Investment directly into non-profits, typically engaged in community development. Also, subsidiary businesses of non-profits (social enterprise), that either carry-out the non-profit social mission (e.g. job training, health service delivery) or generate revenue to support the parent non-profit.

Expectation: Debt instruments with principal returned with modest interest earnings, direct community impact, blended value with concessionary aspect in term, risk or rate (or all three). And, most qualify as Program Related Investments for foundations.</td></tr>
<tr><td colspan="2">Examples:

Pooled Portfolios: Calvert Community Investment Notes (www.calvertfoundation.org), with over $70 million in assets, provides a global portfolio directly invested in 185 community development, microcredit and social enterprises (target-able to investor concerns) in one pooled and security-enhanced (though uninsured) investment, currently returning up to 3% annually. It remains the only nationally registered retail investment note product, with over 20 broker dealer sales agreements in place.

International Microcredit: Opportunity International (www.oikocredit.org) is a microfinance institution with over $120 million in assets, whose mission is to provide opportunities for those people in chronic poverty to establish viable businesses. Opportunity International's network now includes 42 local partners in 25 developing countries, and it's uninsured investment note offers fixed terms and rates up to 2%.

Below Market CDs: Similarly to market rate deposits, scores of community development banks and credit unions offer below market higher social impact CDs that benefit low-income communities. Examples include (in addition to the above listed market-rate options); University Bank (www.universitybank.com), Community Capital Bank www.communitycapitalbank.com and Alternatives Federal Credit Union (www.alternatives.org). Rates vary, but all deposits are insured up to $100,000.

Resources: www.communityinvest.org, www.calvertfoundation.org, www.natfed.org, www.communitycapital.org</td></tr>
</table>

<table>
<tr><td>Community Development Venture Capital
Investee: For-profit small business

Investor: HNW Investor, foundations, corporations</td><td>Background: Investment typically placed through a fund, into privately held companies, either located or serving disadvantaged communities, owned by small business owners with-out access to equity markets.

Expectation: “Patient capital” benefits disadvantaged communities. While some may be successful, many generate modest earnings or may not even walk away whole. Liquidity events may be longer and returns lower than market-rate VC investments.</td></tr>
<tr><td colspan="2">Examples:

Fund of Funds: The Community Development Venture Capital Association (www.cdvca.org) maintains a pooled fund of funds reaching a range of CDVC local funds across the US. It currently is capitalized at $5.75 million and is open to new investors as a PRI option.

Pacific Community Ventures: PCV (http://www.pacificcommunityventures.org/) is based in the San Francisco Bay Area and is a leading community development venture capital fund. PCV “provides resources and capital to businesses that have potential to bring significant economic gains to low-income communities throughout California. Among other investors, PCV has received investments from CALPERS, the California state pension fund.

Boston Community Capital: Managing both a loan fund and a venture fund, BCC (http://www.bostoncommunitycapital.org/) provides expanded capital support to organizations creating greater social value in the Boston area, and supports housing development organizations engaged in community revitalization efforts.

Resources: www.cdvca.org</td></tr>
</table>

<table>
<tr><th colspan="2">Philanthropic Rate Grant Instruments/Strategies</th></tr>
<tr><td>Strategic Philanthropy
Investee: Non-profit organizations in diverse sectors

Investor: HNW/family foundations and other donors.</td><td>Background: A venture-philanthropy (or "engaged") style approach to grant-making that typically entails: substantial, multi-year commitment for operating support, Board participation, Donor skilled volunteer involvement—or simply a well defined strategic grants program that may use even use professional on-granting intermediaries.

Expectation: Term "investment" is used figuratively. This is grant making with an active, engaged style or other strategic lens. No financial return anticipated other than tax break.</td></tr>
<tr><td colspan="2">Examples:

REDF: The Roberts Enterprise Development Fund (www.redf.org) is an "elder" in the arena of venture philanthropy. The Roberts Foundation first began researching and funding in this arena in 1989, with REDF itself being launched in 1996. REDF works with a portfolio of nonprofit organizations managing market-based businesses providing transitional employment to formerly homeless people. REDF is known for its extensive investment in building the field's intellectual capital through its many free publications.

Social Venture Partners: Based in Seattle, SVP (http://www.svpseattle.org/) has become a part of a national (soon to be international!) web of donors working together in teams to support the efforts of investees. Sponsoring regular educational events and publishing regular reports on its experiences, SVP has developed the 21st Century incarnation of the "donor circle" and demonstrated that a combination of volunteerism and philanthropy can create significant value for both nonprofits and their communities.

New Profit, Inc.: A leader in leveraging financial and other resources from its partners, New Profit, Inc. has focused upon the challenge of achieving scale with nonprofit ventures that have demonstrated a proven track record of success. Through its partnership with the Monitor Group, NPI provides organizations with an array of support and expertise, in addition to its funding. (http://www.newprofit.com/).

Intermediary/Re-Granting Funds: A range of professional intermediaries exists to assist donors to roll out funds to specific sector impact. Some leading practitioners in the field include; Global Green Grants for grass roots environmental work (www.greengrantsfund.org), Global Fund for Women for women's development issues (www.globalfundforwomen.org) and Tides Foundation maintains a number of issue area funds (www.tides.org). And, Calvert Foundation maintains a clearinghouse of 14 on-granting funds (the Giving Folio initiative) at www.calvertgiving.org.

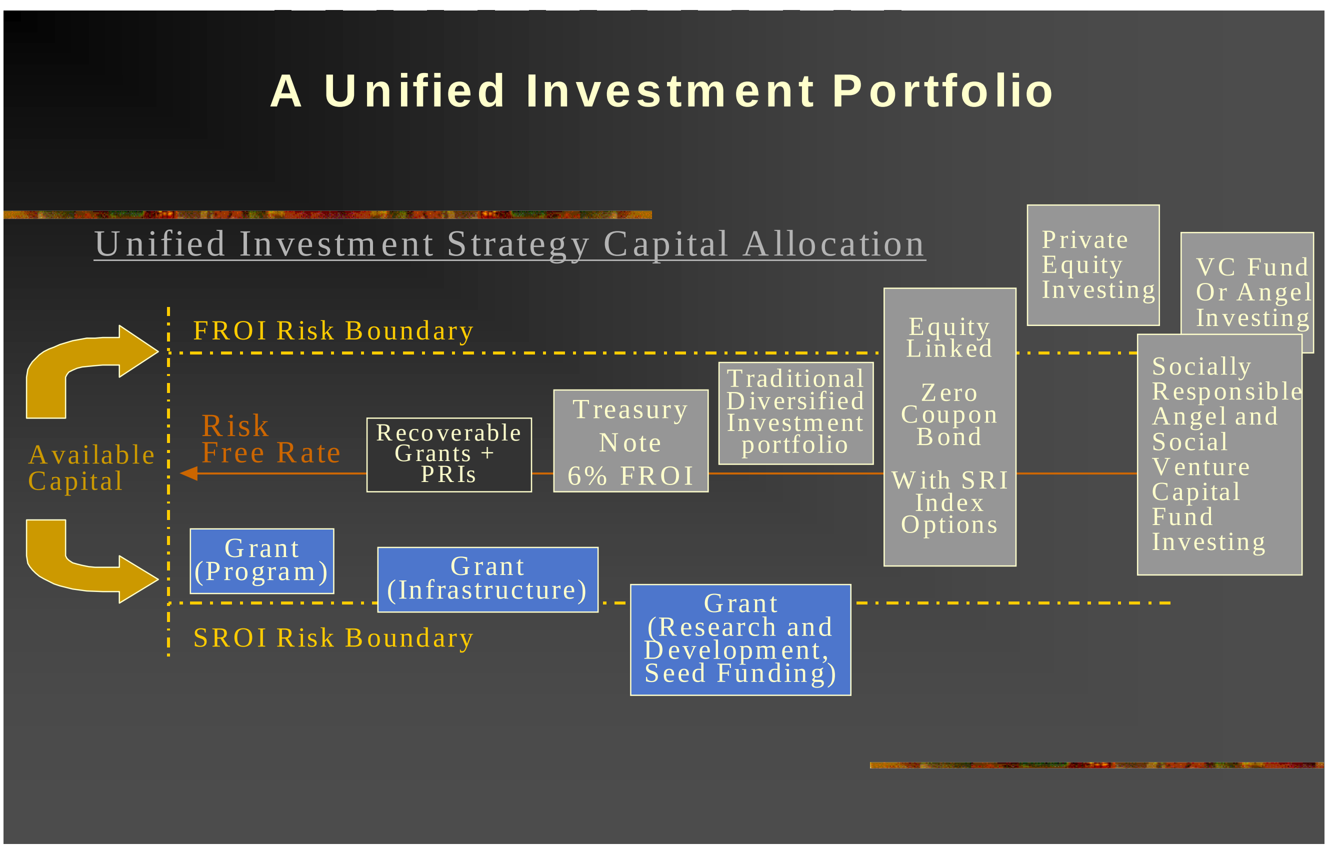
Resources:GEO (http://www.geofunders.org/index.cfm?fuseaction=Page.viewPage&pageID=184)</td></tr>
</table>

Note: All of the above examples are for illustration purposes only and are not meant as recommendations, or exemplars to the exclusion of others. A more complete listing is included in Appendix B.

The Unified Investor, with this Toolkit methodology in hand, builds a carefully constructed portfolio over time that is fully aligned with the goals of an individual or institution—both financial and social. And, as with traditional portfolio theory and financial management, their aggregate strategy will factor in a number of issues and constraints; risk tolerance, appreciation/income needs, diversification and many others. And, as Matt Zuck of SKBA notes,

> "A professional plan should be drawn up that fits their goals—they should approach their consultant/advisor in constructing a Unified Investment Strategy. The consultants will respond to client requests, and if they don't there are those who specialize in building overall financial plans for clients who are interested in implementing social criteria. Once the consultants feel that SRI is a viable business category based on the volume of client requests, the next layer of the institutional framework will be built."

As the following graphic illustrates, a Unified Investment Portfolio simply expands and rationalizes the traditional portfolio to unify the programmatic activity and mission of the investor:



As these Unified Portfolios are constructed, investors seek to establish capital relationships with a range of actors for a range of purposes, as described. We believe the social capital market, like any other, requires ‘market-makers’ that define standards and norms, enhance transparency and promote more efficient transactions.

In the first category of capital, that of market-rate investments, there exists a plethora of well-established organizations providing market intermediation to investors—especially in the ‘do-no-harm’ area. As we move into more aligned investment strategies, though, the number of vehicles declines significantly.

And, in the second category, that of concessionary rate capital, there is even less activity, and additional market intermediation is required.

Managing many direct relationships between investors and investees is intensely inefficient and prohibitively costly. Investors often lack meaningful analysis of community development and social enterprises at the local level, while social enterprises are interested in identifying capital as efficiently as possible. In this case, the interests of both suppliers and users of capital may best be served by market intermediaries and a new generation of financial instruments that yield a blended financial and social return.

Both those investing capital and those in pursuit of it will need to rely upon aggregators, administrators and/or consultants in order to invest and access funds efficiently. Yet, the number of intermediaries is limited.

§ Aggregators of investments are often industry associations that form “funds of funds” in order to achieve scale and leverage their expertise to serve multiple local community development initiatives.

§ Community development consultants and asset administrators serve institutional and individual investors and their investees interested in creating and administering their own community investment programs to match specific needs.

On the investee side, community organizations will need significant new capital each year, assuming the market continues to grow at historic rates. An analysis of Calvert Foundation’s existing investees indicated $4 billion in assets that typically had a 42% leverage ratio (debt/total assets).[25] By contrast, the historic CAGR of total assets is approximately

[25] Calvert Foundation’s Community Investment Partners enterprise acts as a social capital market intermediary, delivering merchant banking, asset administration and analysis services to both sources and users of capital in the blended value space.

20%. This would indicate an additional $5 billion is required over the next five years to adequately capitalize this segment of the market. And, should these organizations increase their leverage ratios as they mature, the need for additional capital will be even more significant.

Many actors within the community investing arena, having created a capital foundation upon which to build, remain frustrated with traditional approaches to raising capital. These entities are actors in an evolving social capital market. They are typically forced to raise funds piecemeal through many events and appeals, and from multiple organizations contributing various forms of equity, debt and grants.

The amount of both time and expense related to sourcing, securing and managing funds in this fragmented environment are high. Terms and conditions of capital are generally inflexible and often out of alignment with the most effective creation of social impact within a context that also performs to high financial management standards. Finally, many social enterprise managers lack the nuanced skills and connections that would enable them to tap into the larger capital markets, thus further inhibiting the ability of investors and investees to operate with the greatest degree of efficiency and effectiveness.

The next stage of development of the blended value social capital market will require a marked increase in the number and sophistication of a new generation of merchant bankers, consultancies and funds centered squarely upon this middle category of capital—to facilitate broad participation by our legions of newly minted Unified Investors.

Section Three: Profiles of Unified Investor Portfolios

As the previous sections illustrate, a compelling vision of what the Unified Investor might look like begins to take shape. All assets may be aligned to pursue and attain the goals of the investor. Let us start by looking at one of the few examples of investors methodically experimenting with unified investment strategies.

F.B. Heron Foundation,[26] with $42 million of $226 million total assets in specific pursuit of what could be described as a unified investment strategy, has the single most significant commitment of the 200 largest foundations in the country, measured as a percentage of assets (at 18.6%). These investments directly track to one of Heron's four programmatic areas of interest—the same program areas that their grant making is directed towards: increasing access to capital, supporting enterprise development, advancing home ownership and reducing the barriers to full participation in the economy by providing quality child care. Their unified investment portfolio consists of the following assets:

- $24 million of these assets are in the first capital category of market-rate investments aligned with program, committed to invest in a range of affordable housing agency paper, real estate and venture capital economic development oriented funds;
- $4 million are in market-rate insured deposits with community development banks and credit unions, which also fall in the first category of market-rate, yet mission aligned, investments;
- $14 million of assets are program related investments—concessionary investments, mostly loans, directly into nonprofit intermediaries and development corporations, each managing a portfolio of community-based investments.

When added to its almost $10 million in annual strategic grants also aligned to its four program impact areas, Heron has gone a long way toward lifting up the 'iceberg' (of which we wrote earlier) to the light of day. This becomes a model illustration of the exponential leverage that the corpus of recoverable investment assets can have for the 5% payout of program grants—as more than *four times* the annual grant assets are at work.

Importantly, Heron Foundation is moving toward a time when they may truly become a 'private community investment trust' (a conceptual term

[26] See http://fdncenter.org/grantmaker/fbheron/mission.html for a full discussion of Heron's 'Mission Related Investment' methodology, all data YE 2002.

only)—one that maximizes the best use of all their financial assets "to get the Foundation substantially or fully invested in mission."

How has Heron fared in its pursuit of positive financial value that leverages greater social returns? In their upcoming annual report, the Foundation states,

> "Many readers are no doubt asking themselves, "What about financial return and risk?" The Foundation has established performance benchmarks for each asset class in its mission-related portfolio. For example, the benchmark for deposits is the national average for two-year jumbo deposits as reported by BanxQuote. In 2003, our mission deposits earned a weighted average return of 2.27% compared to 1.53% for the benchmark. The benchmark for fixed-income securities is the Lehman Brothers Aggregate Bond Index, the broadest measure of the US fixed-income market. In 2003, our mission-related fixed-income portfolio produced a total return of 4.04% compared to 4.10% for the benchmark."

The report goes on to state that, "it is worth noting what has not changed. We have not relaxed in any way our responsibilities as fiduciaries and stewards of the Foundation's assets and we have not changed the Foundation's asset allocation."[27] And yet, this is a foundation that has invested 20% of its portfolio in a strategy to gain greater leverage of social value through the management of its financial assets.

The growth in use of program-related investment by foundations has remained relatively flat over recent years, with less than 1/10th of 1% of assets in such concessionary mission aligned activity. Similarly, the growth of market-rate aligned investment strategies has not changed radically within foundations. Nonetheless, as the Heron Foundation's model illustrates, not to mention the history of Ford and MacArthur Foundations,[28] and other experiments such as Rockefeller Foundation's ProVenEx Fund,[29] there is meaningful experience in this arena—upon which other investors may build.

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[27] Both quotes are taken from a draft of the F.B. Heron Foundation annual report for 2003. The reader should check their web site for an updated, public version of this report: www.heronfdn.org.

[28] Ford Foundation has a long-standing PRI portfolio of $113 million, out of $9.3 billion in assets (1.2%) currently, and MacArthur Foundation has cumulatively made $200 million in PRIs out of what is currently a $3.8 billion corpus.

[29] The Program Venture Experiment (ProVenEx) of Rockefeller Foundation is $12 million out of $2.6 billion total Foundation assets (0.5%). With a mix of 30% of concessionary capital and 70% private equity into potentially market rate return situations, "all

To carry the discussion one step further, let's imagine three Unified Investors and design portfolios for them:

1) A $1 billion major private foundation that is totally aligned behind broad global environmental sustainability

A majority, perhaps 75% of assets, would be in market-rate publicly traded stocks and bonds screened for both negative and positive environmental performance (after financial screening for superior market returns). Alternative energy companies would be singled out for inclusion; polluters and strip-miners would be excluded.

Shareholder activism (proxy voting) campaigns would be undertaken with companies in the portfolio engaged in less than stellar environmental activities, and positive resolutions would be introduced to influence companies to adopt positive stances on the environment. Strategic holdings could be added to the portfolio specifically to engage in this activity (though they may likely be relatively small positions if financial performance is suspect).

To the above activity a small additional allocation to market-rate venture capital in environmentally positive ('cleantech', alternative energy) early stage companies would be undertaken.

Another portfolio could be maintained that invested in rainforest and old growth timberland, with a range of market and sub-market return expectations. These could be directly linked to the strategic grant making initiatives of the Foundation.

A PRI portfolio in nonprofit organizations and CDFIs financing environmentally sustainable business and development work at the grass roots level would be created.

Finally, $50 million[30] could then be deployed in annual strategically aligned environmental grants that seed new initiatives, develop intermediaries, promote advocacy, education, policy level change and

investments are made to further a specific program strategy of the Rockefeller Foundation and leverage expertise and networks that exist within the Foundation's program areas." The financial return expectations range from 0% to 26%. In 2002, the Boston Consulting Group performed an assessment of ProVenEx. It is available at www.rockfound.org/documents/564/provenex_assessment.pdf. Interestingly, one of the findings of the BCG study was that the need for intermediaries to manage and administer this sort of BV capital was critical to scalability of the strategy.

[30] The authors are not advocating for a 5% payout, but since that is the current benchmark for foundations, it is used for illustration purposes.

support other high impact activities—including strategies consistent with their above recoverable investment activity (such as shareholder action campaigns).

2) A $100 million family foundation whose mission is to support micro and small business enterprise

A majority of assets would be in market-rate publicly traded stocks and bonds screened for both negative and positive employment practices and economic development job creation (again, after financial screening of those companies). Small cap and emerging market stocks and bonds could be over-weighted.

To the above activity, a small additional allocation to market-rate venture capital in early stage companies creating significant jobs in underserved markets would be undertaken. Also, below market community development venture capital activity would be layered in to target specific activity in low-income communities.

A PRI portfolio in nonprofit organizations and CDFIs financing small business and microcredit work at the grass roots level would be built. This could include investment in secondary market microcredit bonds.

And, $5 million in annual grants would be deployed to support the broad growth of the field; creating incubators, intermediaries, trade associations and the development of best practices—not to mention strategically injecting capacity building capital either to seed emerging practitioner organizations or into maturing groups invested in through the above recoverable capital activity.

3) A high net worth individual with $10 million dollars, interested in alternative and affordable housing

The majority of the portfolio would use publicly traded stocks and bonds screened for CRA quality and predatory lending issues (where applicable), and would build in a significant allocation to affordable housing bonds such Fannies and Freddies, CRA screened money market instruments, municipal bonds and market-rate CDs in community development banks and credit unions specializing in affordable housing. Similarly to the previous examples, proxy voting on issues such as predatory lending would be undertaken.

Numerous, somewhat concessionary, pooled funds, bonds and CDFIs working completely in the affordable housing arena would be added to the above. Let us further assume that the individual lives in a co-housing development that they have helped (perhaps anonymously) to finance.

And $100,000 in annual giving to affordable housing groups might be undertaken. [31]

The previous examples are simply common sense sketches of the sort of Unified Investment Strategies that might be executed with careful planning and the necessary will.

[31] The average individual in the United States gives away approximately 2% of their income per year (not their assets)—but we assume a somewhat more charitably inclined and engaged individual in this example of approximately 10% of income (1% of assets).

Conclusion

The Investors Toolkit has sought to demonstrate how through re-conceiving the nature of capital and value, investors may draw upon a variety of instruments in pursuit of building portfolios capable of generating multiple returns. In concluding this exploration, it is important to state yet again that there is no “off the shelf” application or strategy with a “one size fits all” use. Rather than allowing investors and their managers to invest capital for simple financial returns, the engaged investor in pursuit of multiple returns will need to be directly involved in working with his or her asset managers to ensure funds are structured in a manner that is reflective of their overall, unified strategy and goals.

Will the creation and application of unified investment strategies soon become the mainstream approach used by a majority of investors?

Probably not.

However, in recognizing that most investors will remain on the sidelines of efforts to create full, blended value, what is clear is that increasing numbers of investors (both individual and institutional) are building viable, high-performing portfolios capable of generating returns of benefit to shareholder and stakeholder alike.

As increasing numbers of baby boomers approach retirement and reflect on the nature of the world we are leaving our children; as growing numbers of investors develop a commitment to overcoming the artificial wall separating financial asset management strategies from related strategies for building social and natural capital, we will no doubt continue to see significant and meaningful increases in this segment of the capital market. With this growth in unified investors will come increased knowledge, proven options for how we structure capital investments and improved frameworks to track performance of blended value funds—all of which will in turn attract more investors.

The process of building this investor market began with a few individuals seeking greater alignment between their assets and their values. At this point, what is clear is that their numbers are expanding and momentum is building. It is the authors’ hope that this paper has been of use to the reader in introducing not simply the idea of a unified investment strategy, but the potential promise of each investor to participate in the creation of full, blended value that provides not only financial returns, but real wealth for our society and planet.

Additional Resources and Materials of Interest:

To review a more comprehensive map of

Socially Responsible Investment Funds,
Proxy Voting Collaboratives/Services/Initiatives,
Community Investment Funds,
Strategic/Engaged Philanthropy Foundations
and a host of other resources

The reader is encouraged to download a copy of the Blended Value Map and its 300-page annotated bibliography for both an overview of this space and direct links to a variety of organizations/resources.

Please see:

www.blendedvalue.org