CMF BOARD OF TRUSTEES AUTHORIZED THE CMF IMPACT INVESTING TASK FORCE
- Attachment A - Impact Investing Task Force Charter

IMPACT INVESTING TASK FORCE DEVELOPED STRATEGIC PARTNERSHIP AGREEMENT WITH MISSION INVESTORS EXCHANGE
- Attachment B - Strategic Partnership Agreement

IMPACT INVESTING TASK FORCE COMMISSIONED THE MICHIGAN IMPACT INVESTING LANDSCAPE REPORT

IMPACT INVESTING TASK FORCE COMMISSIONED A FOLLOW UP REPORT, THE MICHIGAN IMPACT INVESTING NETWORK HUB RESEARCH PROJECT

CMF IMPACT INVESTING TASK FORCE RECOMMENDED WORKING WITH MORGAN STANLEY TO DEVELOP AN INVESTMENT PRODUCT TO OVERCOME BARRIERS INDICATED BY MEMBERS.

IMPACT INVESTING TASK FORCE BECAME A CMF BOARD STANDING COMMITTEE AND BECAME THE CMF IMPACT INVESTING COMMITTEE
- Attachment F - CMF Impact Investing Committee Charter

CMF IMPACT INVESTING COMMITTEE CONTINUES WORK ON DEVELOPMENT OF THE IMPACT INVESTING HUB
- Attachment G – Draft Initial Hub Concept 4-15-2016
CMF Mission: To grow the impact of Michigan philanthropy
CMF Vision: To achieve vibrant communities with great opportunities for all


Role & Responsibilities

Authorization: CMF Board of Directors, Included in 2013/14 and 2014/15 Plan of Work. The task force met throughout CMF’s 2013-14 fiscal year to guide preliminary work leading to the creation of this charter.

Goal: To guide design and implementation of CMF’s services as Michigan’s philanthropy infrastructure organization to support the growth of the impact investing ecosystem in Michigan as a tool to accelerate the impact of Michigan philanthropy.

Impact Investing: This may include program-related investments, mission-related investments, social impact bonds, pay-for-success investments, and other hybrid capital investment models that emerge in this space.

Responsibilities:

1. Assure that the task force has the appropriate membership and experience to guide CMF’s strategy.
2. Provide leadership and expertise to support shared learning and to collaborate with others working in the impact investing space to nurture an ecosystem that is robust, aligned, highly qualified and ethical. To foster the greatest amount of success in impact investing including the potential for economies of scale regarding transactional costs and the benefits of managed and/or shared risk.
3. Continually access the environmental scan of Michigan ecosystem of impact investing and determine next steps for CMF to support future development of the ecosystem.
4. Guide the design and implementation of a two-year plan for CMF to support further development of the ecosystem of impact investing in Michigan.
   a. Review, and amend if necessary, the draft Mission Investors Exchange partnership agreement to authorize CMF’s counter-signature.
   b. Provide guidance regarding other potential partnership agreements to help nurture the ecosystem in Michigan.
   c. Provide guidance to CMF and the Office of Foundation Liaison as needed regarding social impact bonds and the process to develop them.
d. Review and provide guidance regarding impact investing evaluation platforms that may be effective in producing economies of scale in measuring change in complex social issues in which impact investing is a strategy.

e. Review pain points in the ecosystem and develop strategies to help overcome them.

f. Determine what role, if any, will be necessary for CMF to continue to fulfill.

g. If CMF needs to provide services to support continued development of the infrastructure of the ecosystem, provide guidance within our core strength.

5. The Task Force will engage in regular communication with the CMF Board of Trustees Executive Committee to gain their counsel.

6. Approve, plan, and recommend final deliverables and submit to the Board with a resolution to adopt.

7. Provide recommendation to the Board whether the task force should be reauthorized. A standing committee created or no further focus needed.

Current Task Force Members:


CMF: Rob Collier, Debbie McKeon (Lead), and Dave Lindberg

Meeting Schedule:

Meetings will be held bi-monthly at the convenience of task force members. CMF may seek guidance of individuals or small groups of task force members between meetings. This task force is authorized through March 31, 2015.
Mission Investors Exchange with Council on Michigan Foundations
Excerpts from
Strategic Partnership Agreement

GOAL
To create an effective base of support for Michigan/Midwest foundations that are exploring the use of, or actively engaged in, mission investing as a tool to meeting their philanthropic goals.

PREMISE
Michigan is the home of many leading practitioners of mission investing. The Council of Michigan Foundations is a strong and dynamic regional association of foundations that is committed to helping its members increase their effectiveness and impact. Mission Investors Exchange is a national organization established with the goal of strengthening mission investing among foundations throughout the country. By working together, CMF and MIE can build a comprehensive ecosystem in Michigan that will serve local and regional foundations and further the use of mission investments as means to generate positive social change. If desired, CMF and MIE can extend their partnership services to mid-west foundations in cooperation with their respective regional philanthropy associations. The potential to create a regionally branded model for intermediate and somewhat customized education services to foundations in alignment with the “Breakthrough Clinic” model is one specific partnership opportunity that will be a focus within this agreement.

ASSUMPTIONS
1. Mission investments (including all types of investments from below-market, program-related investments, market-rate investments) are viable tools for foundations of all types and sizes.
2. Foundations and other philanthropic asset owners are more likely to become engaged in mission investing, make greater use of investment strategies, and increase the impact provided they have:
   a) Access to information and education about mission investing,
   b) Access to capable service providers (strategic consultants, legal counsel, investment advisors, and others) who provide direct assistance,
   c) A viable group of investable not for profit and for profit enterprises,
   d) Connections to public officials and policy makers,
   e) Opportunities for peer learning, networking, and collaboration.
3. CMF has local and regional connections to key constituents as well as the capacity to organize, support or provide wide ranging services and programs. CMF will engage Dione Alexander, independent consultant, with a deep and extensive knowledge and experience related to mission investing and capacity building for the nonprofit sector.
4. MIE has extensive knowledge and experience related to mission investing, as well as in working with diverse foundations and other participants in mission investing. MIE has a Giving Practice consultant in the Midwest, Christa Velasquez, who it may engage to support activities that further this agreement. If the consultant engagement is with an external organization, the normal consulting rates apply.

5. Should CMF or MIE desire to contract with a consultant from its partner’s network, they will do so utilizing their partner’s internal hourly rate should one exist.

**WORK PLAN**

In addition to individual activities, the initial work plan necessary to create Michigan’s mission investing ecosystem includes the following. Funding for this work will be developed jointly.

1. Through an environment scan or scans:
   a. Identify the foundations in the targeted region that are actively engaged in mission investing.
   b. Identify foundations that are actively or potentially interested in mission investing.
   c. Identify consultant and other resources in the region that are actively involved in mission investing.
   d. Identify non-profit organizations, CDFIs, intermediary organizations, and other entities that would be viable partners.
   e. Identify sources of political and/or governmental support for mission investing.

2. Research through surveys and other means, the types of resources that would be effective in further engaging foundations and other constituency groups.

3. Build out information resources and platforms for dissemination, communication, and engagement that would connect key constituents.

4. Develop a multi-year calendar of convenings, programs, and other activities that advance mission investing.

5. Identify and engage additional partners, funders, and resources, as needed.

**ROLES**

Mission Investors Exchange will provide the following types of services (as needed):

1. Technical assistance and links to consulting and other resources
2. Strategic planning
3. Program planning and development
4. Information resources and program content
5. Education
6. Other services as needed
Council of Michigan Foundations will provide:

1. Consultation
2. Strategic planning
3. Connection and communications with key constituents
4. A base of operations
5. Education
6. Organizational and logistical support to all aspects of work
MICHIGAN IMPACT INVESTING LANDSCAPE REPORT
Table of Contents

Acknowledgements........................................................................................................3
Overview ...........................................................................................................................4
Findings............................................................................................................................5
Methodology.....................................................................................................................7
CMF Theory of Change...................................................................................................8
Philanthropic Capital......................................................................................................10
Investor Profile...............................................................................................................11
Investment Candidate Profile.......................................................................................15
Investment Candidate Screening ...............................................................................17
Professional Provider Profile.....................................................................................19
Concept Service Hub....................................................................................................20
Appendix A=Model Hub Schematic............................................................................21
Contact Information....................................................................................................22
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OVERVIEW

Established in 1972, the Council of Michigan Foundations (“CMF”) is a community of members committed to growing the impact of Michigan philanthropy through investing in the state's charitable organizations, convening business, government and nonprofit leaders, collaborating on critical issues, seeking innovative solutions, sharing knowledge and advocating. The Council of Michigan Foundations has grown to become one of the nation’s largest regional associations of grant-makers, serving more than 330 members - family foundations, corporate foundations and giving programs, independent and community foundations, and public charities of all sizes - representing over 85% of the organized philanthropic assets in the state of Michigan.

CMF STRATEGIC FRAMEWORK

In 2013 CMF updated its Strategic Framework and Business Model to address opportunities for change and growth within the philanthropy sector and to build upon existing successful programming and services. This revision of the framework also recognized a shift in the philanthropic landscape to include new players such as for-profit and hybrid organizations as well as emerging best practice around the provision of “financial charitable support” as a wider lens to capture the scope of giving options outside of grant-making.

IMPACT INVESTING DISCOVERY

An expressed outcome of CMF’s 2013 Strategic Framework and Business Model was the design of an impact investing hub as a new service offering. This goal stemmed from member and community partner interest in ways to increase or more effectively utilize impact investments to finance social benefit; essentially leveraging some of the $25 billion of foundation assets in the State of Michigan. CMF engaged RoundBox Consulting (“the Consultant) to conduct a landscape assessment of the interest and capacity of potential investors, investment candidates, and professional services providers to engage in investing and the types of tools and services that CMF might deliver to best support this activity.

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.”

~Global Impact Investing Network
FINDINGS

As with the introduction of any new tool or technology, potential users need to answer one critical question, “how will this improve outcomes?” The same question is asked by both potential impact investors and investment candidates (i.e. nonprofits) who want to make certain that this type of capital is not simply a solution seeking a problem but a meaningful and practical way to give and get financial charitable support. The research found that while both investors and investment candidates are interested in impact investing both groups require more knowledge about the subject. About 80% of investment candidates had no or limited knowledge of impact investing compared to about 50% of investors (i.e. foundations). Highlights of other important findings are as follows:

- Over 60% of investors queried had not engaged in impact investing and the key reasons that they have not engaged in the space are the lack of adequate knowledge and tools and that grantees and stakeholders had not expressed an interest in this type of capital. Conversely, most investment candidates stated that they had not been asked by investors to consider or apply for this type of funding. It would appear that each group is waiting for the other to broach the subject which is not likely to happen if neither group is very confident of their understanding.

**Opportunity:** CMF can serve as a broker or conduit for knowledge about impact investing by providing training, consulting, and resource information. An education curriculum appears to be the first need of the field in order to participate in this space. 

- Investors expressed concern about finding enough qualified investment candidates and transactions (i.e. deal flow or pipeline) to make participation in this space worth the expenditure of financial and staff resources. In fact, some foundations that are already making impact investments don’t have a formal investment program with planned, regular deal evaluation or a desire to establish one—deals are structured on a case-by-case basis.

**Opportunity:** CMF can support impact investing by connecting its extensive networks and creating an “exchange” for deal flow. This exchange could look like an on-line portal where co-investment opportunities, government initiatives (e.g. Regional Prosperity Map), and pitch contests can be centrally communicated and tracked. Because data visibility is one of its key assets, CMF is also well-situated to take a lead role in managing communications in the investing space in Michigan.
The number of nonprofits for which impact investing provides the right kind of capital to drive the right kind of social changes will be limited relative to the entire universe of Michigan nonprofits because the sector is highly populated by small organizations that don’t have a business/revenue model that is conducive to investment. Funders in the space most often provide financing to larger, more stable grantees with which they have long-term relationships. Nearly 60% of nonprofits queried stated that they would need capacity-building in the form of business and strategic planning in order to become investment-ready. Of note, the investment candidate pool can easily be expanded based upon investor’s willingness to support for-profit or hybrid organizations with a social mission.

**Opportunity:** CMF can assist members that provide or desire to provide capacity-building services with the development standards or tools for assessing the readiness of investment candidates.

Michigan may be under-resourced in the number of technical and professional services providers available to support and build the field. Because the impact investing sector as a sub-sector of all philanthropic giving is relatively small, the advisory community (e.g. consultants, accountants, and impact evaluators) for the sector is equally small as there is not sufficient business for most firms to create a requisite practice.

**Opportunity:** CMF, through its consulting services program, can qualify and contract with consultants that are specifically skilled with impact investing on behalf of member clients. CMF’s consultant roster includes subject matter experts across the state that can form cross-disciplinary teams.

In order to advance any of these opportunities, CMF would likely require enhancements to its own human and capital resources to allow for the orderly build-out of a network of services and relationships to support these activities.
METHODOLOGY

This report was designed as a qualitative assessment. Qualitative research aims to gather an understanding of behaviors and the reasons that govern such behavior. The qualitative method investigates the “why and how” and not just the what, when or where. Therefore, smaller but focused samples are used more often than large samples. It should be noted that the respondent universe for investee inquiry was so small as to be statistically negligible compared to the number of known nonprofits in the state (over 40,000) and the number of for-profit businesses that do or could provide social impact.

In the conventional view, qualitative methods produce information only on the particular cases studied or entities surveyed or interviewed and any more general conclusions are only informed assertions. Quantitative methods can then be used to seek empirical support (e.g. verifiable evidence) for research hypotheses. For example, if 99% of respondents to a survey question indicated that they strongly favor a certain product, then a reasonable person could assert that this product was desirable but could not predict the amount of the product that customers would be willing to buy without additional research.

Tools used to gather information for this report include on-line surveys, telephone and in-person interviews, and literature (i.e. books, research reports, and periodicals) and website reviews. Over 500 entities and or individuals were queried. Relative to survey tools, it should be noted that the term “respondents” refers to the number of entities completing the survey and not the number of entities responding to a specific question(s) as all respondents did not answer all questions.

While this report was not intended to identify or quantify the entire universe of participants or would-be participants in the Michigan impact investing pool, it does attempt to understand and provide information on the profile of likely participants and gaps or voids in the impact investing landscape. Further, this report was not intended as a general guide to making or supporting impact investments, however, information from published guides may be referenced within this report.
THE CMF THEORY OF CHANGE

A Theory of Change ("TOC") is a practical tool for developing solutions to complex social problems. A TOC creates a pathway for change by working backwards from a goal through the conditions and strategic interventions necessary to achieve the goals and the metrics required to evaluate success. Based upon member interest in impact investing, CMF’s Impact Investing Task Force led the articulation of a TOC; outlined in the graphic below, that addresses the benefits of investing.

PROBLEM STATEMENT

- MI requires a financially sustainable social benefit and nonprofit sector to contribute to the quality of life, economic revitalization, and job creation enhancements that make the state a desirable place to live, work, and visit.

COMMUNITY NEEDS

- Many social benefit and nonprofit entities in MI are inappropriately capitalized to maximize societal and financial returns. Some entities could benefit from investment capital which is in short supply in spite of the state’s significant philanthropic assets.

DESIRED OUTCOMES

- A social benefit and nonprofit sector that is well informed about their capital needs and options
- Creation of a ready and informed investor network ("supply side")
- Creation of a ready and informed investment candidate network ("demand side")
- Achievement of pre-determined goals for the number of impact investments made and the amount of investment capital deployed statewide.

In order to meet the desired outcomes, CMF’s envisioned strategic intervention was the build out of a state-wide impact investment ecosystem or a networked hub that would connect knowledge tools, talent, financial capital, and other assets in a way that would make it more efficient and effective for investors to deploy capital and for investment candidates to access and leverage capital. This networked system could potentially mitigate the high-cost and steep learning curve associated with investors individually structuring programs or transactions and could provide a
more transparent way to collect impact data and promote best practice within the sector. This report is in essence a testing of the TOC in order to qualify CMF’s assumptions.

CMF articulated a TOC from its understanding of the sector and member interests. To frame the TOC from a more, investor-centric reference, it may be instructive to look at the change-statements of a few foundations that are actively involved in impact investing.

- “While ordinary charitable gifts are expended during the course of a new program’s launch, Angel Fund gifts are designed for reinvestment, so they make an impact, time and time again….a self-sustaining resource is created by-and accountable to- donors who we call Social Impact Investors.” – The Porter Hills Foundation

- “Grantmaking remains the primary tool for foundations like WKKF. But in a fast-changing world with scarce resources….. it is imperative that we look for additional ways to put endowment dollars to work to make a difference in the lives of vulnerable children….. Through the Mission Driven Investments (MDI) program, we support private-sector, for-profit entities working for social change. Many of these likely would not be funded through traditional grantmaking.”-W. K. Kellogg Foundation

- “Through Program Related Investments, the Community Foundation hopes to: 1) Increase the sustainability of nonprofit organizations through creation of social enterprise that generates revenue, 2) Extend the power of its invested assets by investing in the local economy, 3) Recover assets invested in the community for future reinvestment, 4) Leverage other investments or sources of support…..”-Grand Rapids Community Foundation

- “Program Related Investments (PRI) enhance and advance the philanthropic work of Rotary Charities and Rotary Camps & Services. PRIs are primarily an extension of Rotary Charities’ grantmaking program and are not viewed as an alternative investment strategy.”-Rotary Charities of Traverse City

The change that investors (both locally and nationally) appear equally interested in is the ability to use capital in a way that encourages organizational sustainability and drives impact. In some cases investors have been implicit about the fact that the relevance of the work and not the legal structure or operating model of the provider is important, therefore their funding tools must reflect the needs of the changing provider base.
PHILANTHROPIC CAPITAL

The term capital is used loosely but what is capital and why is it important to any discussion about philanthropy? First, capital is different from revenue. Revenue is money received from the sale of a product or service. Its flow is fairly consistent and it pays for normal operating expenses like salaries and supplies.

For many nonprofits a significant portion of their revenue is restricted in that it can only be used to fund the project that the foundation or donor agreed to support. For example, the proceeds of a grant made to support health screenings can’t be used to fund medications for a patient or to radically change the way healthcare is delivered.

Change, growth, large-scale collaboration, innovation, and expansion almost always require capital. Unlike revenue, capital is a targeted infusion of funding, separate from operating money, which helps the nonprofit improve its opportunities to produce revenue and to increase social impact.

Think of it this way, revenue pays for more gas to fuel a truck but capital pays for technology to optimize delivery routes which in turn reduces fuel usage and speeds up deliveries. Though this example of fuel savings was borrowed from shipping giant UPS, it could be easily applied to food banks, disaster relief agencies, and other nonprofits that operate a fleet of vehicles.

One of the key challenges that the nonprofit sector faces is inadequate or misaligned capital structures. Organizations may try to finance long-term assets with short-term funding or grow or boot-strap new programs without dedicated seed money. Poor capitalization limits an organization’s ability to plan, adapt, and respond which leaves them in the vulnerable position of “reacting” to change or missing opportunities. CMF theorizes that as the philanthropic sector’s role as a change agent in Michigan’s revitalization continues to grow and evolve, the sector will need to employ a wider range of philanthropic capital tools such as impact investments. One size will not fit all.

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Grants
- Meets affordability gap (costs exceed revenue potential) vs. financing gap (capital is needed to produce new or more durable revenue that repays funding)
- 100% negative return, no repayment
- Smaller $$ size
- Project funding vs. enterprise – level funding

Program-Related Investments
- True financing gap
- Larger $$ size
- Enterprise –level funding to meet growth or change
- Ability to repay funding
- Often below market rate return

Mission-Related Investments
- Often market rate or above returns
- Well-defined financial and social return metrics
- Higher level of risk evaluation
- Suitable for scaling, product commercialization, mergers & acquisitions
- Wide range of asset classes to choose from (e.g. private equity, fixed income, guarantees)
INVESTOR PROFILE

Impact investing existed long before the term itself came into being or any professional practice was built around it. Generous individuals have historically offered credit to charities but in 1969 the federal Tax Code recognized program-related investments and that legitimized the space for institutional investors like universities, banks and pension funds. The growth in institutional investors also sparked myriad names for impact investing such as: mission-related, mission-driven, socially-responsible, and triple bottom line investing. According to a report from the Monitor Institute (*Investing for Social & Environmental Impact*, 2009), the impact investing market was expected to grow from $50 billion in 2009 to $500 billion by 2019.

While the increased appetite for impact investing is definitely significant, it doesn’t necessarily mean that most investors, even foundations, are hungry to try it. In fact, the 2013 infographic from the Foundation Center depicted below shows that only a small fraction of foundation assets nationally are being deployed for impact investing. Michigan’s philanthropic sector appears to mimic national trends as over 60% of foundations surveyed for this report indicated that they had not engaged in impact investing. Of those that had made impact investments, the majority of those investments were centered in loans and loan guarantees followed by equity investments in for-profit entities.
Anecdotally, it appears that most Michigan foundations engaged in the space are not acting with intention meaning that: 1) they are not actively soliciting investment candidates, 2) impacting investing is not an explicitly stated program or activity, 3) no formal investing guidelines or policies exist, and 4) no impact investment capital has been earmarked or reserved.

The seeming lack of intention is not a black-eye on the sector and may actually signal that some investors are taking risks, learning by doing, and challenging nonprofits to “think outside the grant” without having a template to refer to. Another counterpoint is that while the number of intentional foundation investors is small; they have formed a powerful learning circle that less formal investors turn to for information and advice. It should be noted that 39% of respondents cited peer organizations as their most valued external source of information about investing. So why aren’t more Michigan foundations engaged? The key reasons (by rank order of importance) cited by respondents are listed below.

**TOP SIX OBSTACLES TO INVESTING**

1. Inadequate information and tools
2. No interest from grantees
3. Doesn’t fit with mission
4. Insufficient capital to invest
5. Too financially risky
6. Doesn’t comply with by-laws or governance

Other potential obstacles cited by investors based upon their actual experiences and or perceptions include:

- Foundations lack adequate back office support to make and monitor investments
- Foundations are risk-averse, trustee and donor buy-in lagging
- Insufficient evidence/history that financial and social outcomes can be achieved
- Cost of investing and time needed to deploy capital is too great
- Good deals are hard to find/source
- Number of nonprofits that are situated to use investments is too small, many lack financial literacy
- **Philanthropic culture favors grants, compelling projects should not have to repay**
It’s important to unpack a few of these concerns in order to better understand whether reasonable solutions exist or can be created to overcome real or perceived barriers or whether the reward for doing so is meaningful.

INFORMATION GAP
Just over 56% of investor respondents stated that they had limited or no knowledge of impact investing. Roughly 50% of respondents stated that they would find board and staff training, underwriting, and legal/compliance assistance useful in creating, sustaining, or expanding an impact investing program. While websites, blogs, and how-to guides about impact investing abound and are good primers for bridging the “knowing gap,” investors may require more tools and information to bridge the “doing gap,” or the place where knowledge is put into action.

CMF can serve as a broker or conduit for knowledge about impact investing by providing training, coaching, counseling, and aggregating resource information. While peer organizations were respondents’ first choice as external thought partners, their second choice was trade organizations like CMF. CMF already has relationships with other associations such as the Mission Investors Exchange and the Michigan Nonprofit Association that could be tapped to supply specific subject matter expertise to the market. However, CMF must carefully consider its own capacity to staff and manage initiatives outside of its historic core business.

DEMAND GAP
Investors rightly want to know the size, composition, and durability of the market and have some assurance that their efforts will attract ready, willing, and able investment candidates. True impact investment demand is difficult to quantify because of the nature of philanthropic capital— *a targeted infusion of cash intended to create better revenue and social impact opportunities*. The targeted nature of this financing suggests that investors play a key role in seeking out deals that meet their well-defined investment objectives or meet very specific or timely community needs.

This is in contrast to traditional grant-making where grantees can cast a broad net in search of revenue that pays for its recurring programming. That said there are over 48,000 nonprofits (30,000 public charities) in Michigan, most in the human services field and most with assets under $250,000, according to the Michigan Nonprofit Association (“Overview of Michigan’s Nonprofit Sector, 2012”). While organizational asset-size is not the sole determinant of suitability for impact investing, smaller organizations will likely require supplemental management and finance supports in order to make, understand, and execute the investment strategy.
Foundations can boost their pipeline of bankable deals by first and foremost being intentional about their investing interests and objectives. A structured and publicly articulated investing program can attract certain candidates. Investment candidates must have some understanding of who is willing to hear their pitch as it would be unproductive to send random solicitations to the over 2,000 Michigan foundations. For investors that choose to provide capital on a case-by-case basis opportunities exist to have personal or small group meetings with select mission-aligned organizations for the purpose of understanding if or how they might use investment capital. Maintaining a consistent pipeline of deals for evaluation was cited by respondents engaged in impact investing as a major challenge.

Creating energy and excitement about the impact investing space through promotions such as pitch contests, “idea prizes”, and mining entrepreneurs in a narrowly-defined place (e.g. neighborhood, commercial corridor, or city) can serve to attract innovative and entrepreneurial organizations. The philanthropic sector may also consider expanding its partnership networks to include non-foundation funders and stakeholders that have access to the demand pool. This pool expands exponentially if investors are willing to consider organizations that do not have a 501 (c) 3 designation, lessening the focus on the legal structure of the provider and increasing the focus on the best way to deliver on value and outcomes. CMF’s activities can promote the demand-side in ways as simple as encouraging support for intermediaries that can grow the pipeline or systematically sharing information about investment opportunities among its diverse partners.
INVESTMENT CANDIDATE PROFILE

The Michigan nonprofit sector includes foundations and public charities as well as non-charitable organizations such as business leagues and labor unions. According to the Michigan Nonprofit Association ("Economic Benefits of Michigan’s Nonprofit Sector," 2012), the sector receives over $200 billion in revenue and holds over $200 billion in assets. At face-value the statistics point to a well-capitalized, well-oiled machine. In reality, the sector is highly fragmented and capital is unevenly distributed across the sector and often misaligned within organizations.

The cash and capital-starved nature of the sector is somewhat evident in the research performed for this report. About 80% of respondents indicated that they had no or limited knowledge of impact investing and 75% indicated that they had never been approached by a foundation about impact investing, however, over 80% of respondents stated that they were interested or very interested in applying for impact investments. Any vehicle or forum that provides access to capital is generally viewed favorably by the nonprofit sector.

Statistically speaking, most of the interested organizations will not be investment-grade or investment ready. Some operate under a business model where an affordability gap (e.g. program costs exceed revenue potential) is an acceptable norm vs. a financing gap. This lack of readiness often creates a need for potential investors to engage in capacity-building with or on behalf of the candidate. This process of cultivating investment candidates tends to slow down the deal pipeline but generally leads to better and more informed decision-making by all. The following chart depicts the types of capacity building services respondents said they would find most useful in preparing for investment capital and the ways (by rank order) that they might utilize capital.

### Capacity Building Needs
- 65% - Data evaluation
- 58% - Business Planning
- 48% - Board and staff development
- 41% - Legal and IT (tie)

### Use of Funds
- #1 - Scaling
- #2 - Fixed asset acquisition
- #3 - R & D
- #4 - Systems improvements
The provision of capacity-building services could be an excellent way for foundations that don’t wish to engage in impact investing to support the field and contribute to shared social outcomes. Impact investing is not a substitute for grant-making nor is it considered superior to grant-making instead each exists on the continuum of capital tools needed by social benefit entities. An established investor specifically commented that in order for impact investing to be successful within a foundation it is imperative that program staff understand how the two tools differ so they can spot opportunities but no value distinction should be made between the tools or the staff (if two separate teams) that manage them. Program grants may also be needed to incubate new ideas until the proof of concept can be presented to investors or to shore up shortfalls in the total financing package.

Though no sub-sector or discipline is uniquely unfit for impact investing, investor respondents provided insight into the types of investment candidates that they viewed as most suitable for this type of financing:

- Health service providers with third-party billings (e.g. federally qualified health clinics, behavioral healthcare maintenance organizations)
- Community financial institutions and financial intermediaries (e.g. loan funds, credit unions)
- Juvenile justice service providers working under government contracts
- Private/charter school systems
- Workforce development organizations (e.g. Goodwill Industries, Salvation Army)
- Technology-based businesses with patented products or processes
- Agribusiness ventures
- Community economic development agencies

Sub-sectors for which impact investing may be least suitable include:

- Medical research or other academic pursuits without defined end-dates or technology transfer applications
- Scholarship programs
- Camps or seasonal businesses
- Recreational leagues/sports teams
- Neighborhood beautification
- Organizations that purchase large assets solely for holding purposes and not to redeploy into revenue-generating activity
INVESTMENT CANDIDATE SCREENING

Investment candidates must be screened through two or three filters: 1) Mission: Does their scope of work produce meaningful outcomes that align with the social impact objectives of the investor? The mission filter or the ability of an organization to do well is also known as the “single bottom line” and is the basis for all philanthropy, 2) Return: Does their business model support the creation of earned revenues (vs. contributed/donated revenues) that are robust and reliable enough to repay the investment. The return filter is known as the “double bottom line.” and 3) Upside: Does the investment have the potential for financial returns greater than the repayment principal and interest? The upside or “triple bottom line” might exist in the form of dividends, equity ownership, pre-payment fees, or other success fees. Every impact investment does not demand upside potential.

There is no ideal impact investment candidate as each investor needs to determine the right fit in accordance with their investment budget, risk orientation, transaction costs (e.g. due diligence, legal fees monitoring, etc.), market needs, and desired asset classes (e.g. purchasing a $250,000 CD from a community credit union has a different affect than offering a $250,000 equity infusion to a social entrepreneur). By way of illustration, the state-wide Michigan Women’s Foundation is making micro-loans of $10-20,000 each to women entrepreneurs many of which have low-to-moderate incomes. While the dollar value of these investments is small, the generational wealth creation potential is great. Conversely, the W.K. Kellogg Foundation which has over $8 billion in assets and is international in scope is making multi-million dollar investments to impact major systems that affect the quality of life for children.

The caveat here is that small–dollar investments generally require as much care and handling as large-dollar investments and for this reason many investors set investment thresholds at their highest risk tolerance in order to limit the investment pool to an orderly size. Additionally, all investors but especially small-dollar investors must be very realistic about the impact or change that they seek to make with their funds. Change made by small-dollar investments may be more incremental than that funded by large-dollar investments which can often immediately and significantly reposition the investment candidate in its field (e.g. increase in staffing, purchase of equipment, acquisition of facilities, expansion of sites or markets, etc.)
Investment candidates with the highest likelihood of success often share the following characteristics:

- Strong governance and leadership bodies
- Proven success in launching or managing programs, products, or new businesses and initiatives
- Well-developed business model, high level of research and planning around the opportunity/need that the business model addresses
- Managers experienced in the revenue-producing body of work. Candidates often fail when their current staff skill sets are inadequate to advance growth or change
- Effective networks or partnerships (“who knows them”)
- Functional operating systems and processes (technology, budgeting, communications, etc.)
- Financial literacy (understanding of the flow of funds, accounting and compliance principles, etc.) and history of effectively managing financial resources
- Some organizational/personal investment in the business model even if in the form of “sweat equity

Anecdotally speaking, it is rare that impact investment candidates come to the table with all of the aforementioned traits and more often the investment itself helps buy or build-out some of these assets. Impact investing is usually inseparable from capacity-building which is needed either to ready the candidate for investment (or the determination that investment is not feasible) or to periodically ensure that the investment stays on track.

Absent, from this discussion is the notion of a minimum asset size for the ideal investment candidate. Clearly size is important in some ways because larger, more fiscally stable organizations can better afford to acquire or develop the referenced success traits. The candidate must recognize that the investment is to be used for revenue-generating activity and not to repay other debts or address structural deficits. There is a separate type of capital need for restorative or repair purposes. In the same vein that a foundation would not want to make a grant so large that it “tipped” the grantee, investments must be configured to the candidates’ size and capacity.

An exception to any asset size criteria would be start-up organizations since many have little currency beyond a compelling concept. Again, mission is the first and most important filter in investment candidate screening. If a start-up can evidence that it can fill a critical mission gap in the existing landscape or respond to an emerging need or practice then it might benefit from a range of phased philanthropic capital to include grant funds to develop the proof of concept or feasibility.
PROFESSIONAL SERVICES PROVIDER PROFILE

Impact investing by design is concerned with both the mission business and the money business of the investment candidate unlike grant-making which promotes fiscally sound grantees but takes an arms-length approach to involvement in grantee’s actual business decisions. In order to meet investment goals both the investor and the investment candidate require a cadre of professional services. This heightened level of diligence may be one of the reasons that investor respondents rated “the availability of knowledgeable in-house staff” as the second most relevant factor (behind having more unrestricted capital) that would influence their decision to create, sustain, or expand an impact investing program.

Research supported that a few generalist disciplines in the realm of professional services were well-represented state-wide, namely management support organizations, construction managers, and accountants. However, many of the specialist fields such as investment underwriting, fund management, and product development lacked sufficient providers or providers sufficiently skilled in working with nonprofits. There was a large deficit in the number of evaluation firms that could be easily identified as experienced in impact evaluation. Most of the specialist practices were located in or around urban cities, many in metropolitan Detroit and metropolitan Grand Rapids, MI.

Because the volume of impact investing business is comparatively small (relative to other philanthropic engagement) and relatively inconsistent, there does not appear to be enough business for practitioners to gain expertise with or to earn a living from. Many nonprofit consultants work as sole proprietors so documenting this workforce can be difficult.

CMF can serve as a facilitator or broker of advisory and consulting services by vetting and engaging qualified consultants on behalf of the sector. Shared services providers might also serve to lower costs, increase quality, and codify best practice.
CONCEPT SERVICE HUB

Approximately 45% of investor respondents indicated that if CMF created a hub that connected investors, investment candidates and services providers to knowledge tools, resources, and investing opportunities they would be likely or highly likely to use those services. An additional 20% responded that they would be somewhat likely to use CMF services with the remainder being unlikely to use CMF services or unsure about whether they would use those services.

The form of service delivery that the hub might take was only generally articulated to respondents as a set of services that CMF might provide directly or broker but in many cases would only facilitate as in an “open source” type platform where multiple contributors own, control, or direct information. Specific concerns and commentary included:

- Inherent difficulty in co-investing and sharing services given that each investor may have very unique needs and guidelines and wish to work only with providers known to them
- CMF is one of a few organizations with enough credibility to engage all of the players
- Uncertain advantage of going through CMF or any broker vs. obtaining knowledge and skills independently
- Difficulty in getting boards and donors to allocate resources to impact investing when so few investments have been made nationally over the last decade and impact evaluation data (where applicable) is just being produced
- Most foundations do not have the staff resources to go out and compile all of the relevant learning resources so it seems reasonable the member association would provide this service
- Impact investing is not core enough to foundations’ giving philosophy to merit special training or consideration
- CMF will need to expand its own capacity to fully launch the hub
- Underwriting assistance would be a service that a foundation would like to purchase
- Grant-making and receipt is the primary way in which mission-related services have been funded so certain organizations will need CMF’s help in adapting their culture to other funding models

Given that 65% of investor respondents felt that that they might use CMF’s services, there appears to be a level of affirmative support that could lead CMF to more detailed discovery and testing of the Theory of Change or actual program design work. Subsequent to the preparation of this report the CMF Impact Investing Task Force developed a functional hub model as depicted in
Appendix A herein. The referenced model may or may not be the final model used to guide future research and or program development.

APPENDIX A-MODEL HUB SCHEMATIC

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RoundBox Consulting is an impact solutions advisor serving the philanthropic and social benefit sector. “Reshaping possibilities.”

Dione Alexander

Dione Alexander is the Principal of RoundBox Consulting, an impact solutions consulting firm dedicated to the philanthropy, nonprofit, and community/social finance sectors. Dione formerly served as the V.P. of the Midwest Region and V.P. of National Capital Asset Development for Nonprofit Finance Fund (“NFF”), one of the nation’s leading community development financial institutions. She has also provided executive management and leadership to Comerica Bank, Wayne County (MI) Departments of Economic Development and Environment, the Detroit Minority Business Development Center, and the Small Business & Technology Development Center at Eastern Michigan University.

Dione is a graduate of the School of Business and Industry at Florida A & M University and the Graduate School of Banking at Louisiana State University. She is also certified as a small business consultant by Grand Valley State University. Dione has served on numerous boards and committees to include the Mission Driven Investing Committee of the W. K Kellogg Foundation, the Advisory Committee of Mission Throttle L3C, the Detroit Development Fund, Northern Initiatives (CDFI), National Community Development Institute, and NEW (Nonprofit Enterprise at Work).
Michigan Impact Investing Network
Hub Research Project

Brendon McKeon, researcher
Michigan Impact Investing Network Hub Research Project

Background

CMF previously engaged Dione Alexander at RoundBox Consulting to carry out an assessment of the impact investing ecosystem in Michigan. The focus of this research was on:

- The interest and capacity of potential investors, investees, and service providers to engage in impact investing
- What tools and services CMF might deliver to best support this activity

Based on the results of that assessment the CMF Impact Investing Task Force approved the Dandelion services hub model shown below and authorized this research project.

Approved dandelion hub model

Methodology

Based on the approved dandelion hub model, this research was carried out with the goal of identifying the key actors and dynamics in 4 networks:

- Deal Sourcing
- Deal Structuring
- Capacity Building
- Education
Information was collected primarily through 33 telephone interviews that took place between March and May of 2015. Interviews were structured in two parts. The first section focused on the interviewee’s experiences and views about Michigan’s impact investing ecosystem. The second section directly asked interviewees to suggest key actors or refer additional contacts for interviews.

The initial interviewee list was compiled based on the approved dandelion hub with input from CMF staff and task force members. This list was iteratively updated based on the additional contacts interviewees suggested and independent online research.

Respondents were candid and generous with their time - the overall level of engagement was quite high. Following completion of the interviews, the initial population of the dandelion hub model and observations based on qualitative analysis of interview responses were presented to the CMF Impact Investing Task Force.

**Dandelion network hub**

The visual below shows the initial population of the dandelion hub model, including all of the interviewees except foundations, which are not shown because they would be represented in all four networks. This is not a closed system or an all-encompassing list: the goal is that these networks will expand over time as the hub begins to function.
Proposed hub leaders

A successful services hub based on the dandelion model requires trusted partners to lead each of the nodes. A list of potential hub leaders based on these interviews is shown in the following table.

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<thead>
<tr>
<th>Hub</th>
<th>Proposed leader</th>
<th>Organization</th>
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<td>Capacity building</td>
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<td>(MNA)</td>
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<td>Education</td>
<td>Matthew Downey</td>
<td>(Johnson Center)</td>
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<tr>
<td>Deal sourcing</td>
<td>Richard Pirog</td>
<td>(MSU)</td>
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<tr>
<td>Deal structuring</td>
<td>David Wood (IRI)</td>
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<td></td>
<td>Romy Ginigras</td>
<td>(Ginigras Global)</td>
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<td>Merrill Lynch</td>
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<td>Mae Hon</td>
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<td>Stanlow</td>
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</table>
Observation 1: Using 1 term (impact investing) to address the entire ecosystem poses communication and execution challenges – there’s not a shared common understanding

Impact investing encompasses a wide array of activities involving diverse asset sources, decision makers, deal structures, and investee profiles.

This complexity acts as a tax on communication, even for people and organizations deeply involved in the space. In fact, interviewees often asked me to provide a definition of impact investing or to confirm that we had a shared understanding of the term.

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.” – Global Impact Investing Network

This research was based on impact investing as defined by the GIIN, with a particular focus on investments made through PRI, MRI, and pay for success structures.
Observation 2: Building clarity around terminology & practices can boost deal sourcing efficiency

Within the foundation community, developing an understanding of which transaction elements are most likely to be stumbling blocks and how to uncover and communicate those issues early could streamline initial deal evaluation and cut down on false starts.

The distinction between Program Related Investments (PRIs) and Mission Related Investments (MRIs) is not generally understood both within and outside of the foundation community.

There aren’t enough readily available service providers able to help foundations assess MRI products that may lead to market rate returns. This may be due in part to the historical perspective that social impact investments can’t have market rate returns.

This lack of clarity was generally present among both potential investees as well as financially sophisticated actors with direct experience impact investing alongside foundations. This suggests that building a broader awareness of what impact investing means from a foundation’s perspective among social enterprises and 501(c)(3)s could enable potential investees to actively seek out and prepare for investments, increasing the pipeline of potential deals.

Observation 3: Specializing can reduce execution and communication challenges

Foundations can reduce the burden of execution and communication challenges inherent to impact investing by specializing in deals that fit a specific profile. Many Community Development Financial Institutions (CDFIs) and Venture Capitalists (VCs) take this approach. For example, a CDFI might focus on structuring loans that unlock tax credits to fund affordable housing, or a VC may focus on early stage equity investments in companies developing mobile technologies.

This enhances efficiency in two key ways:

1. It supports development of a standardized approach to deal evaluation and analysis based on domain expertise.
2. It creates opportunities that potential partners and investees know how to leverage.
Observation 4: Developing impact investor / investee relationships could enhance outcomes

The relationships between foundations and investees have historically been very different from the relationships between foundations and grantees, in large part because they were focused on delivering different things: investees pursued financial returns and grantees pursued social impact. However, impact investing asks foundation investment and program staff, investees, and grantees to all consider both social impact and financial return. This alignment of interests creates opportunities to enhance outcomes by changing the nature of impact investor / investee relationships.

1. Leveraging untapped aspects of existing relationships
   For example, in the for-profit space, companies often seek investors that bring not just capital but connections and expertise to the table. However, grant-funded organizations often view capital sources as scarce, and as a result hide any potential issues from funders. This is suboptimal because it increases the risk that a potential issue eventually leads to failure, and over the long term also decreases opportunities for collaboration by slowing down the flow of information.

2. Rethink nature of relationships between foundations investing in social impact and the organizations delivering it
   It is possible that impact investing entails such a departure from established practices that it may fundamentally alter the nature of foundations’ relationships with organizations across both the philanthropic and for-profit sectors. The private equity and venture capital industries have both seen substantial changes in the nature of the investor / investee relationship as they have grown. For example, foundations may find that providing investees with a program partner (similar to an operating partner in private equity) enhances social return. Additionally, with venture capital style incubators many current grantees may be able to develop business models that merit impact investments.

Observation 5: Adopting a capacity building mindset can strengthen deals

Many 501(c)(3)s don’t have the organizational capacity to successfully accept impact investments. From their perspective accepting impact investments is much riskier than grant funding because it is outside their area of expertise. Unless investments include support for strategic business development, many 501(c)(3)s will lack the resources to develop and vet plans to return investment capital in addition to executing programmatic deliverables.

Foundation, board, and 501(c)(3) staff skill sets may not match the requirements of this work. Foundations lending to or investing in 501(c)(3) organizations can help
mitigate these risks by adopting a capacity building mindset to guide the 501(c)(3)s through the continued business development and strategic planning needed to support successful repayment.

**Next steps**

This report and the interview response data attached in Appendix A are the final deliverables for this research project. The report has been updated to reflect the CMF Impact Investing Task Force’s input so far. At this point, the task force is considering the following next steps:

- Import all data from interviews into CMF CRM systems
- Create a visual of what network might look like in real time
- Task force to decide what role will CMF play going forward

**Acknowledgements**

I would like to thank the CMF Impact Investing Task Force for inviting me to do this project, as well as all the interviewees who took time to have these discussions. It was a pleasure to work on this project.
Appendix A

Brenda Hunt, Battle Creek Community Foundation
Carmen Heredia Lopez, Dana Linnane, and Joel Wittenberg, W.K. Kellogg Foundation
Carolyn Cassin, Michigan Women’s Foundation
Charlie Rothstein, Beringea
Chris Rizik, Renaissance Venture Capital Fund
Chris Uhl, Skillman Foundation
Cynthia Muller, Arabella
David Sand, Community Capital Management
David Sharp, Urban Advisors
David Wood, More for Mission
Dennis West, Northern Initiatives
Ellen Remmer, The Philanthropic Initiative
Jason Zylstra, DeVos
Joe Neri, IFF
Joel J. Moore, Merrill Lynch Global Wealth
John Goldstein, Imprint Capital
John Van Camp, Southwest Housing Solutions
Joyce Keller, Quicken Loans
Julie Ridenour, Steelcase Foundation
Kelly Kuhn, Michigan Nonprofit Association
Kim Dempsey, The Kresge Foundation
Mae Hong, Rockefeller Philanthropy Advisors
Mark A. Lelle, Consultant in Evaluation and Planning
Mark E. Hooper, Andrews Hooper Pavlik, PLC (CPA’s and Advisors)
Mark Rogers, Morgan Stanley
Matthew Downey, Dorothy A. Johnson Center for Philanthropy
Ray Waters, Invest Detroit (Detroit Development Fund)
Rich Pirog, MSU Center for Regional Food Systems
Robin Ferriby, Community Foundation for South East Michigan
Romy Gingras, Gingras Global, LLC & Gingras Global Groups, L3C
Sithara Kodali, Third Sector Capital Partners
Susan Gordon, Mission Throttle
Tina Hop, Herbert H. and Grace A. Dow Foundation
Tom Edmiston, Great Lakes Capital Fund
Tony Siesfeld and Robert De Johng, Deloitte & Touche USA LLP
Tracy Palandjian, Social Finance Inc

Why are we Here?
We are here to respond to a challenge from the Council of Michigan Foundations (CMF) whose members desired a fixed income impact investment product that would allow them to invest in projects that generate economic impact in Michigan – even in a particular county. CMF convened a task force to study the barriers to impact investing faced by its members. CMF then reached out to various advisors to rise to the challenge to create a product that would respond to those barriers. Morgan Stanley rose to that challenge and, after examining several investment advisors specializing in impact investing, brought CCM into the conversation as a trusted advisor with whom Morgan Stanley had worked with in the past.

In response, Community Capital Management (CCM) created the CCM Economic Development Bond Fund LLC: The State of Michigan Impact Series (the Fund) that is a high credit quality vehicle making fixed income investments in support of community economic development in the State of Michigan. CCM is one of the largest impact investment managers in the United States and brings more than 15 years of experience managing client assets in market rate bonds throughout the U.S. to Michigan’s impact investing landscape. While the Fund provides a new and accessible way to participate in impact investing, CCM’s footprint in Michigan is longstanding. To-date, CCM has invested over $150 million in Michigan impact bonds.

How does the Fund Foster Social Impact in Michigan?
From mortgages for affordable rental housing properties, to small business loans targeted at job creation and in support of community development, to Michigan State Agency bonds in support of neighborhood revitalization, investment opportunities in high credit quality or Agency guaranteed securities exist throughout the state that have Michigan community economic development as their underlying purpose. These investments are garnering both social and financial return and are providing a unique means for investors to have their investments put to work to meet both their mission as well as their financial target returns – targeted toward their community. It is a win-win for our state’s economic development and for funders’ sustained asset growth and impact. The Fund, which is available exclusively to CMF members, will invest in these types of opportunities – all within the state of Michigan – and investors may target up to half of their investment to a particular county within Michigan, thus making the Fund particularly responsive to the mission of place-based funders.

The Fund Provides:

A means for funders to meet both their mission and financial target returns
Conceptually, impact investing makes good sense for many in the philanthropic sector; practically, however, the field of impact investing still has real barriers to entry. These include high minimum investment amounts and high minimum asset size requirements that leave out a majority of funders, inflexibility of directing where the funds you invest go geographically, and often investments that come with high risk profiles, high transaction costs and limited liquidity. CCM has created an investment product that specifically targets these pain points to ensure maximum participation and ease of entry.

A ripple effect to ignite economic development and growth
While impact investing has been around for decades, accessibility remains elusive for many funders and investment recipients alike. The more investors who demand financial products like the Fund, the greater the market is incentivized to create more products that meet the criteria of these investments. Take the affordable housing market as an example. The needs in the market exceed the current supply of available programs, many of which are capital constrained or have underwriting standards that are too tight for many Michigan residents. Recent initiatives such as the Detroit Home Mortgage program for affordable second mortgages received support from banks and foundations and spotlight the different ways capital providers can play their part in helping the Michigan community. In this way, the Fund acts as a demand-side stimulus to incent growth in existing and future markets for community economic development.

A proactive defense to an increasing trend of skepticism surrounding endowed philanthropy
At a time when endowed philanthropy is under heightened government scrutiny and typecast as warehouses of vast wealth that enjoy numerous tax preferences, impact investing demonstrates social return - alongside financial returns - that quickly silence skeptics of time elapsed philanthropy. By demonstrating early return social impact with your investment portfolio as well as the financial returns to support grantmaking activities over long time horizons, you multiply your available assets to contribute towards your mission’s goals.

This document provides summary information regarding the Fund. It is for internal use and reference purposes only, and not approved for distribution. It should be read in connection with more descriptive materials, including the Offering Memorandum.

Social Impact Specifics
What will the Fund invest in?
Fund investments will be made to high credit quality bonds, including U.S. Agency guaranteed mortgage-backed securities (MBS) and taxable municipal bonds issued by Michigan state agencies. The Fund will invest exclusively in securities that have Michigan community and economic development as their underlying purpose. We believe the Fund is the first of its kind place-based initiative created for and offered to foundations.

How does CCM define “social impact” for Michigan?
High credit quality or Agency guaranteed securities that have Michigan community economic development as their underlying purpose will be the scope of social impact that the Fund seeks to have. These activities may include but are not limited to: Mortgages for low and moderate homebuyers, mortgages for affordable rental housing properties, small business loans targeted for job creation and support for community development, and Michigan State Agency bonds in support of neighborhood revitalization and affordable housing.

Social impact is an ever-broadening category, and there are many impactful investment opportunities beyond the scope of the Fund’s risk and return guidelines. For this reason, the Fund will not invest in venture capital, private or public equity, direct real estate, corporate bonus or loans, or project finance.

What makes the Fund different from other impact investing opportunities already available?
The Michigan Impact Series Fund is unique in its:

Focus: In addition to being a Fund exclusively investing in Michigan, investors have the opportunity to target up to 50% of their investment to a specific county level, an unprecedented level of specificity.

Accessibility: The Fund minimum investment is $500,000, making the Fund accessible for small to mid-size foundations and large foundations alike. Minimum asset size to invest in the Fund is $5 million and associated fees are kept to a competitive low rate.

Impact: The Fund puts social impact in the forefront and through reporting and detailed metrics, investors will be able to demonstrate specific social return from their investments. CCM’s relationship with CMF will assist in identifying effective programs and further illuminate areas of opportunity for impact investing within the state of Michigan.

Community: The Fund was built as a response to a committed group of funders’ two-year journey to address pain points in impact investing. It’s in our DNA to leverage community input and build together. To this end, the Fund leverages an investor learning community to grow social impact reporting capabilities and continue to challenge and improve upon the status quo.

What sort of social impact reporting will investors receive?
In addition to financial performance reporting, investors in the Fund will receive detailed social impact reports on the Michigan economic activity supported by the Fund and by each investor’s targeted allocation. These reports will include maps, deal descriptions and metrics on impact such as housing units created and jobs supported.

Investment Specifics
Who can invest in the Fund?
The Fund was developed in direct response to inquiries from the CMF Impact Investing Task Force, who saw the pain points in the field and, over the timespan of more than two years of work, proactively sought a solution that would engage more foundations in impact investing. Investment in the Fund is currently available exclusively to CMF members.

What is the minimum investment amount?
The minimum investment is $500,000. Subscriptions are made via Subscription Agreement with Morgan Stanley acting as Placement Agent.

What is the liquidity for the Fund?
The Fund’s investments will be in highly liquid securities. Investors will be offered a liquidity option to redeem up to 25% of their invested capital each month. Redemptions will be at the prevailing market value for the portfolio, and there is no entrance or exit fee.

This document provides summary information regarding the Fund. It is for internal use and reference purposes only, and not approved for distribution. It should be read in connection with more descriptive materials, including the Offering Memorandum.

How should an investor or their consultant treat the Fund for purposes of asset allocation?
The Fund is designed as a high credit quality, core fixed income investment that can be placed in the portion of a foundation’s asset allocation that is set aside for conservative bond market investments. The Barclay’s U.S. Aggregate Bond Index will be an appropriate benchmark for the Fund’s performance.

When will the Fund launch?
The Fund began active marketing in the fourth quarter of 2015 and will go live as soon as cumulative investor commitments reach $50 million.

Fund Manager Specifics
Who will manage the Fund?
The Fund will be managed by CCM, one of the largest impact investment managers in the United States. CCM currently manages over $2.2 billion of high credit quality community development investments. The firm’s web site is www.ccmfixedincome.com.

What is CCM’s track record?
CCM has over fifteen years of experience managing client assets in market rate bonds in geographically targeted portions of the U.S. CCM’s flagship bond fund carries a 4-star rating from Morningstar and was in the Top 1% of the 309 bond funds tracked in the intermediate government category for 2015. Over the years CCM has invested over $150 million in Michigan impact bonds.

What types of clients does CCM work for?
CCM’s $2.2 billion of assets under management comes from over 400 institutional clients including banks, pension funds, faith-based investors, family offices, individuals and foundations. Many CCM clients have been advised by the nation’s leading investment consultants and wealth managers in connection with their investment in CCM funds or separate accounts.

What is the SEC disclosure item on CCM’s Form ADV?
In 2006, Todd Cohen (one of CCM’s co-founders) was involved in an administrative proceeding with the SEC that resulted in a settlement in which Cohen neither admitted nor denied the SEC’s allegation that he failed to supervise traders at a prior firm. The alleged activities occurred in 1998-1999 as part of a kickback scheme between a client of the prior firm and a salesperson. CCM has never been involved in any litigation arising from the firm’s role as an investment manager. The Form ADV for CCM may be found at: http://www.adviserinfo.sec.gov/IAPD/content/ViewForm/crd_iapd_stream_pdf.aspx?ORG_PK=109368

What is the ongoing role of CMF?
CMF has been engaged by CCM in highlighting Michigan social impact trends and facilitating a learning community to grow social impact reporting. Mission related fees received by CMF for this work are a fixed amount and independent of the quantity and size of investment in the Fund. In addition, CMF has the right of first refusal to provide the following additional services on behalf of other future regional impact investing funds offered by CCM: to share education with fellow regional grantmaking associations (RAs) and/or other philanthropic infrastructure organizations (PIOs) and their members and constituents about social impact investing, and to assist fellow RAs and/or PIOs in implementing effective social impact trend reporting for their respective state or regional locale.

It is important to note, however, that CMF is not a registered investment advisor nor a licensed broker dealer. As such, CMF may not, and does not, recommend any investment or investment professional, including the Fund, CCM or Morgan Stanley. Any CMF member’s investment in the Fund must be based upon such member’s own internal investment policies and procedures. CMF has no involvement in, or control over, the Fund’s investments to be made by CCM nor the Fund’s performance, and by law may not have any such involvement.

What is the role of Morgan Stanley?
Morgan Stanley is a member of CMF and was originally a member of the Impact Investing Task Force. Morgan Stanley resigned from the task force and began working to provide a means to overcome the impact investing barriers identified by the task force, collaboratively with task force members. After a culmination of more than two years of efforts, Morgan Stanley selected CCM as the investment manager for the Fund, and serves as the fund’s Placement Agent.

This document provides summary information regarding the Fund. It is for internal use and reference purposes only, and not approved for distribution. It should be read in connection with more descriptive materials, including the Offering Memorandum.
CMF Mission: To grow the impact of Michigan philanthropy
CMF Vision: To achieve vibrant communities with great opportunities for all

Impact Investing Committee

Role & Responsibilities

Authorization: CMF Board of Directors, November 2015 as proposed by the Governance Committee. Transition CMF Impact Investing Task Force to a standing committee.

Goal: To guide design and implementation of CMF’s services as Michigan’s philanthropy infrastructure organization to support the growth of the impact investing ecosystem in Michigan as a tool to accelerate the impact of Michigan philanthropy.

Impact Investing: This may include program-related investments, mission-related investments, social impact bonds, pay-for-success investments, and other hybrid capital investment models that emerge in this space.

Responsibilities:

1. Assure that the committee has the appropriate membership and experience to guide CMF’s strategy.
2. Provide leadership and expertise to support shared learning and to collaborate with others working in the impact investing space to nurture an ecosystem that is robust, aligned, highly qualified and ethical. To foster the greatest amount of success in impact investing including the potential for economies of scale regarding transactional costs and the benefits of managed and/or shared risk.
3. Continually access the environmental scan of Michigan ecosystem of impact investing and determine next steps for CMF to support future development of the ecosystem.
4. Guide the continued design and implementation of the CMF plan of work related to impact investing field. Specific current committee responsibilities include:
   b. Guidance regarding other potential partnership agreements to help nurture the impact investing ecosystem and practice in Michigan.
   c. Oversight of the CCM Economic Development Bond Fund: Michigan Impact Series stewardship (execution of the CMF consulting services contracts development of similar funds in conjunction with other philanthropic infrastructure organizations).
   d. Guidance and support of the impact investing related activities for CMF initiatives. Currently this could include impact investments to support the development of ImpactMichigan.
e. Oversight of the development of the Michigan Impact Investing network HUB model.

5. The Committee will engage in regular communication with the CMF Board of Trustees Executive Committee to gain their counsel and develop recommendations regarding deliverables pertinent to this committee for submission to the Board with a resolution for adoption.

Committee Selection, Size and Service:

Composition of the Impact Investing Committee will be reflective of the current membership and those who can identify trends and hold expertise in the content area. A member of the CMF Board of Trustees will chair the committee. The Chair of the board of Trustees shall be an ex-officio member with voting rights. Each committee member will serve a term of two (2) years. Each committee member may serve a maximum of two (2) consecutive two (2) year terms.

Meeting Schedule:

Meetings will be held up to six times per year, in person or by phone, at the convenience of committee members. CMF may seek guidance of individuals or small groups of task force members between meetings.

Initial Chair: Phillip Fisher, Max M. and Marjorie S. Fisher Foundation

Staff Lead: Debbie McKeon, senior vice president member services
“The Hub”: Accelerating the Impact Investing Ecosystem in Michigan and Beyond

A draft concept presented to CMF for reaction, advice and counsel
“Hub” Background

• CMF has been pursuing its passion to increase membership value by listening to their needs and conceiving innovative solutions to accelerate community impact in Michigan.

• Simultaneously, philanthropy has been constantly evolving to test convention and test new solutions, tools, systems and platforms.

• One of the solutions being promoted (and questioned) is Impact Investing.

• In response, CMF formed an Impact Investing Task Force (now a committee) to proactively excite stakeholder interest by developing a “hub” that would convene, collaborate and connect interested members with state activists in Impact Investing.
“Hub” Background

- Initially, CMF contracted with outsourced advisors to assess the current system, identify existing resources and gaps to accelerate the movement.

  - Six months later, Brendon McKeon authored a draft research report to populate a “dandelion” that identified the players in the “Hub”, suggest leaders of each branch and identify a number of observations that required additional work.
  - Thereafter, Kumar Raj and Malia Xie pushed this work forward.

- An actionable path towards a true solution is necessary to move forward.
“Hub” Next Steps

What do we learn from the past research (opportunities) to find a actionable path forward to accelerate impact investing’s (“II”) momentum in Michigan?

**Opportunities:**
- A conduit for education and clear collective messaging is needed
- An “exchange” is needed to connect and refer the (fragmented) II stakeholder network
- Create readiness (on ramps) for informed investor and investee interest
- Disseminate learnings from investments

The “**Michigan Impact Investing Collaborative**”
- A separately branded collaborative of II stakeholders focused on ecosystem needs over their own…a commitment to collective cultural values
- Disseminating a collective voice of normalized messaging that increases awareness
- A resource referral hub to satisfy market demand
- On-ramps for investors searching for mission driven capital enterprises and funds
- Off-ramps that collect lessons from the field and shares them transparently
- Advocacy and policy development to promote and accelerate the sector
- A one-stop shop

We are looking forward to your reaction and advice at today’s meeting. If excited about the concept, let’s discuss next steps…
Building a Strong Foundation for “The Hub”

• Committing to mutual values is essential. This includes:
  • Prioritizing the ecosystem over any one of our individual goals. This is our baby -- we're promoting the baby over ourselves.
  • Selfless leadership, attributing success to all stakeholders, and taking the bullet when mistakes happen.
  • A collaborative spirit, creating a magnet for others to join the movement.
  • Mutual trust intellectual honesty, and referring questions to those best equipped to answer.
  • No hidden agendas.
• Starting with a clean slate, we will build an effective collaborative that is agnostic to any one sector, with a clear strategy and purpose; essentially, what's best for the state.
Why This Organization Is Needed

The change that we had hoped for is actually happening and clarity, people, messages, resources are needed to accelerate it further!

Currently there is no:

- All for one, one for all!
- Convener for all social enterprises and impact investors in Michigan.
- Centralized on-ramp for those interested in social enterprise, impact investing and/or SRI in Michigan.
- Single entity with broad support that focuses on public policy to push the space forward.
- Centralized location for messaging, marketing and promotion.
Is There Enough Demand/Revenue to Warrant a Separate Offering?

• While the gaps listed above certainly exist, the question remains: is there enough of an ecosystem in MI to warrant a separate entity/structure?

• One way to test this is by determining how much earned revenue could be brought in by membership fees, educational classes, conference fees/sponsorships, etc. If there is enough earned revenue for long term sustainability, then there is enough demand.

• What we don't want is to create another source of need- yet another for-impact going after limited dollars.

• The Hub model anticipates professionals and members who pay to play; a revenue model that looks like membership fees broken into different categories (professional, core member, premium member, etc.).

• The Hub should act as a distribution channel (both ways) for learning, information, referrals, revenue and investment opportunities-- a true value-add!
**How Do We Get Started?**

- A founding member group will be brought together to vest in the concept. These founding members will serve as the initial advisory group.

- The founding members and staff devise requirements for Phase 1 and present to the IIC for recommendation to the board.
"The Hub": Scope, Structure and Offerings

**Vision**

**Mission**
A value-added solution focused referral system for those interested in Impact Investing and intermediaries.

**Advisory Committee**
Prospective Leaders
Strategy Development
Reporting to the Field
Supervision of Manager
Conflict resolution
Membership Eligibility

**Audience**
DAF’s
HNW’s
SFO’s Corps
Foundations (Family)
Foundations (Non-Family)
Government

**Increased II Awareness**

**Intermediary Stakeholders**

**Culture/Governance**
Shared Values
Relationship Guidelines
Convening
Collaborating
Sector-wide Advocacy

**Value Chain**
Advocacy & Policy
Increased II Awareness
Strength/Resources
On Ramps
Off Ramps
Culture/Governance

**Philanthropic Ecosystem**

**Storytelling**
Lessons learned
Referrals
II Education
Case Studies
Legal Solutions
Success/Failures

**Agnostic to Legal Form**

**Hub**
Michigan’s Impact Investing Ecosystem