Opportunity Zones, Impact Investing and Loan Guarantees: What is the Role for PSOs?

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As a PSO…
- What do you need to know?
...and
- What do you NOT need to know?
Investments in companies, organizations, and funds with the explicit intention to generate social and environmental outcomes alongside various rates of financial return.
Impact Investing Example

Gund Foundation program-related investments
Foundations are interested because this relates to communities they are likely making grants into—communities they care about, concern about equity.

Foundation investments:
- grants (e.g., capacity building, systems)
- impact investing (debt, guarantees, etc.)
- convening and expertise
The sweet part of OZs is that they are bringing visibility to the needs and promise of underserved communities, the application of tax incentives generally, and cross-sector efforts.

- The high profile of OZs is prompting conversations, coordination, co-investing opportunities and impact investing.
Opportunity Zones Example

Erie, PA
LOAN GUARANTEES

Needed for De-Risking

For Some Reason *Capital Isn’t Flowing*:

- Policy barrier
- High transaction costs
- Market lacks understanding of a segment or product
- Cost of capital
- Too much risk
The balance sheet is one of the most underutilized assets foundations have to support their missions.
Small Groups

Choose a group:
- Impact Investing
- Opportunity Zones
- Guarantees

Designate a reporter:
- Each group will report on What PSOs need to know
- What PSOs DON’T need to know
Primary Resources
Resources on Impact Investing

- https://gundfoundation.org/what-we-fund/program-related-investments/
- https://missioninvestors.org/impact-investing-101
- https://missioninvestors.org/glossary
- https://missioninvestors.org/resources/impact-investing-foundations-key-terms-philanthropy
Resources on Opportunity Zones

- https://missioninvestors.org/opportunity-zones
- https://ozframework.org
- http://www.lisc.org/opportunity-zones/community-partners-playbook/
Resources on Guarantees

Scaling the Use of Guarantees in US Community Investing
Global Impact Investing Network
https://thegiin.org/assets/GIIN_Issue_Brief_Guarantees_final%20for%20web.pdf

Making ‘Cents’ of Guarantees: The View From a CIO
Rob Manilla, Chief Investment Officer, The Kresge Foundation
https://Kresge.org/content/mission-money-markets-making-cents-guarantees-view-cio

A Needed Piece of Community Investment Infrastructure
Kimberlee Cornett, Director of Social Investment, The Kresge Foundation

Guaranteeing the Goals: Adapting Public Sector Guarantees to Unlock Blended Financing for the UN Sustainable Development Goals
Aron Betru, Chris Lee, Paul Horrocks, Milken Institute
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Additional Resources
When to use a loan guarantee?

- When a transaction can be **de-risked** so that other capital will flow
- When you want to extend charitable activity without requiring current liquidity
- Perceived risk is higher than actual risk
- When you believe the risk will diminish over time, therefore the guarantee can burn off

A guarantee should be considered anytime there is other capital willing to make the investment (at appropriate terms) with some amount of credit protection.
What are credit enhancements?

• Credit enhancements incentivize the issuance of debt. Through credit enhancement, lender is reassured the borrower will pay the debt.

• Highly effective in crowding in other capital – typically 5x leverage

• Advantageous for foundations (and DAFs) because assets stay fully invested until losses occur in the future. When payments are made they are treated as grants.
### Spectrum

**Aligning your Investing with Mission**

<table>
<thead>
<tr>
<th>Prioritizing of Return vs Impact</th>
<th>Profit Only Investing</th>
<th>Responsible Investing</th>
<th>Sustainable Investing</th>
<th>Socially Responsible Investing (SRI)</th>
<th>Impact Investing</th>
<th>Impact Only Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Returns Paramount</strong></td>
<td>Impact Risk</td>
<td>Impact Opportunity</td>
<td>Passive Impact</td>
<td>Equal Priorities</td>
<td>Lower and/or Uncertain Return</td>
<td>No Return</td>
</tr>
<tr>
<td>No regard for ethics or impact</td>
<td>Adopt ESG to mitigate risk and retain value</td>
<td>Adopt ESG to enhance value</td>
<td>Adjusting investments based on certain ethical guidelines—regardless of effect on returns</td>
<td>Seeking specific positive impact &amp; competitive return</td>
<td>Seeking specific impact that requires lower return</td>
<td>Seeking specific impact, expectation of no return</td>
</tr>
<tr>
<td><strong>EG, “Business as usual”</strong></td>
<td>EG, screening for coal stock, given risk in long-term</td>
<td>EG, investing in renewables, b/c of market opportunity</td>
<td>EG, eliminating stock in firearms because of moral beliefs</td>
<td>EG, investing in market-rate entrepreneurs of color fund</td>
<td>EG, patient and/or low-cost capital for affordable housing</td>
<td>EG, 0% interest loan, recoverable grant, grant.</td>
</tr>
</tbody>
</table>
Share Your Feedback

- Please take a couple of minutes and share what you thought of today’s session. We want to hear from you!
- Session surveys are available in the conference app.
- Navigate to the session and click on “Session Survey” underneath the session description & speakers.
Thank You

What’s Next?
- 5:30 - 7:00 pm, Clips, Conversation & Cocktails, Orchid Ballroom (6th Floor)
- 6:00 – 9:00 pm, Outings and Activities (Pre-registration is required)
  - Corner Alley Bowling (6:00 - 9:00 pm), Lobby
  - Brewery Tour (6:00 - 9:00 pm), Lobby
  - Cleveland Creameries Tour (6:00 - 8:00 pm), Lobby
  - Walking History Tour (6:00 - 9:00 pm), Lobby