



VIRGINIA IMPACT
INVESTING FORUM

VIRGINIA IMPACT REPORT

Inspiration Across the Commonwealth

VOLUME I

DIRECTOR'S *Letter*

BY MATTHEW
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Across the nation, investors are seeking more sustainable, responsible, and impactful outcomes. Virginia has its own story to tell. With the words of our founding constitution, Virginians are reminded that all of our efforts contribute to the collective Commonwealth. It is our hope that this inaugural Virginia Impact Report inspires stewards of both private and public capital to consider how every capital allocation decision impacts the common wealth of our region and beyond.

The articles in this report reflect this vital mandate and demonstrate that investors can approach impact investing with many different agendas. Some focus their impact on a specific community (e.g. Danville, VA), some on a specific area of interest (e.g. environmental sustainability), while others are more generally focused on responsible investing activity across their entire portfolio. Some take an impact-first approach, which is more focused on social outcomes and more lenient on financial returns. Others have no interest in sacrificing financial returns. Instead, these investors focus their efforts on maximizing a double bottom line.

For each article, we selected a talented and passionate professional (two of our articles are co-authored)

who is helping to influence and advocate for impact investing in their own sector. There are many other stories to be told which could have been included in this inaugural report and

were not for lack of time, space, or awareness. Our hope is that this report will generate conversations which bring to light many other efforts that we can feature in future reports.

Taken together, the authors featured here represent stewardship over hundreds of millions of dollars which are managed with an intentional impact investing mandate. While we can all celebrate these commitments, it is also fair to suggest that Virginia is in the beginning stages of cultivating impact investing practices across every sector of its capital economy.

An effort of this scale could not be possible without many helping hands. First, we thank Camille Pittman for her tireless efforts to edit these articles. Camille's valuable support came from deep passion for this work and we expect this will carry her far in all future endeavors. We also thank our Advisory Board and those who have supported the work of the Virginia Impact Investing Forum (VIIF). Lastly, we thank each author for their important contribution to this report.

We envision a future in which all assets are managed with an intentional strategy to examine social and environmental impact. This includes our public pensions, 401ks and other retirement plans, college endowments, non-profit endowments, church and religious endowments, charitable assets, trusts, and personal savings. With this in mind, it is worth celebrating the work that has already begun.



Matt has served as investment advisor for families and endowments for over fifteen years and in addition to this work he serves as Trustee on investment committee of the Richmond Memorial Health Foundation. When he's not working to nudge the markets in a more just and sustainable direction, he might be found on a bike ride with his family or a run with his Church Hill running group.

WHAT IS IMPACT INVESTING?

Socially responsible investing that produces both financial and social returns.

- *Stanford Social
Innovation Review*



The mission of the Virginia Impact Investing Forum (VIIF) is to connect, educate and nurture a growing a network of impact investing stakeholders and practitioners across the Commonwealth. These like-minded advisors, investors, philanthropists, public and private sector stakeholders are intentional about investing for social good and financial return.

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A Faith Based Health System

BY EDWARD
GERARDO

FORMERLY DERELICT
BUILDING THAT
BECAME THE NEW
SARAH GARLAND JONES
COMMUNITY CENTER

Years ago, I attended a session focused on shared values at a marriage preparation program. The speaker asked engaged couples to swap calendars and checkbooks with the insightful remark that if one wanted to know one's fiancée's values, their priorities would be reflected in how one spent their time and money. The actions we take, the time we commit, and the use of our resources all reflect what is meaningful and important to us. Since none of us live in isolation, our choices influence the "collective wealth" of the wider community. It comes as no surprise that many investors seek to make investment decisions which align with their values and achieve a corresponding impact for the good of society and the planet.

What can be said of individuals frequently applies to organizations and corporations as well. This is especially true for privately held and non-profit institutions who seek to leverage investment assets for continuity with and promotion of the organization's mission. Such is the intention of the Bon Secours Health System.

Bon Secours Health System ("Bon Secours") is a not-for-profit Catholic health system sponsored by Bon Secours Ministries and founded by the Sisters of Bon Secours. The Mission of Bon Secours is to bring compassion to health care and to be Good Help to Those in Need, especially

those who are poor and dying. A significant portion of its \$3 billion health care operations are in central Virginia as well as Hampton Roads.

In its efforts to bring about healthier communities, the health system recognized that many conditions – hypertension, obesity, depression, etc. – were significantly impacted by the context of people's lives, the social and built environment in which they lived. Economic stress, unsafe neighborhoods, dilapidated housing, inadequate education, and the absence of healthy foods and recreational space all contributed to poor health status. If sustainable health improvement, versus episodic treatment of symptoms, were going to be achieved it would require intentional efforts to address these root cause conditions.

In conjunction with a variety of direct endeavors, primarily through grants and staff roles, the board of the health system established a Socially Responsible Investment ("SRI") policy that recognized a moral and ethical obligation to steward its investable assets in a manner consistent with its mission, vision, values, and core strategies. SRI policies generally consist of three components: (1) investment screens that avoid or minimize support for products and behaviors inconsistent with an organization's mission and values, (2) intentional shareholder engagement with invested companies to improve environmental, social, or governance issues, and (3) impact or community investments intended to improve the well-being of a particular population.

Addressing housing affordability:

Rooted in the experience of west Baltimore, where Bon Secours acquired and helped build more than 800 units of affordable housing and worked with residents to convert more than 640 vacant lots into green spaces, Bon Secours has made loans to Virginia Supportive Housing, the Maggie Walker Community Land Trust and Virginia Community Development Fund to increase capacity of affordable housing across central Virginia and Hampton Roads.

Supporting local and small business development:

In Richmond, Bon Secours converted a closed and unsightly auto repair shop into the Sarah Garland Jones Center (see photos), a multi-purpose community gathering site. The inviting Center serves as a catalyst for reinvestment in the community and provides a small business incubator kitchen, café, and community room for meetings. Neighborhood young adults who aspire to be restaurant entrepreneurs hone their culinary and business skills in the kitchen and operate the café.



Addressing energy efficiency for fixed income populations:

Outside of Virginia, Bon Secours provided the Solar and Energy Loan Fund with \$100,000 to provide efficient clean energy technologies to lower and fixed income populations in Tampa/St. Petersburg, FL through no-interest loans. These loans have the double benefit of mitigating poverty and carbon reduction in a climate sensitive locale.

Impact investing has benefited Bon Secours' larger mission of "bringing communities to health and wholeness" by offering new tools and resources to transform communities. From this work some important lessons are (a) that every organization has this capability to impact their community, (b) impact investments are best pursued and applied in partnerships with other organizations as well as in coordination with the vision and wishes of community residents, and (c) that organizations can set appropriate fiduciary parameters to achieve desired risk/benefit goals and diversify their investments in support of their overall mission.

Editor's Note: As of September 1, 2018 Bon Secours Health System has merged with Mercy Health to form Bon Secours Mercy Health.

Bon Secours' Community Investment Program aims to invest up to five percent of its long-term operating assets to serve and facilitate transformation in low-and moderate-income communities. The goal of the Program is to make impact investments, primarily through community development financial intermediaries ("CDFIs"), to fund initiatives that promote access to jobs, safe and affordable housing, food, education and healthcare for low-income and/or minority communities. Metrics employed to evaluate return on investment include the number of jobs or housing units created for low-and moderate-income populations as well as more macroeconomic measures, such as median income. Bon Secours also tracks the return of principal and interest earned. The Executive Management Team approves all investment decisions. The Pension and Investment Committee receives annual updates on the performance and impact of the Program.

Cumulative investments range from \$250,000 to \$4,000,000, which is substantially more than can be provided through grant efforts. In return, Bon Secours accepts more modest financial returns (2 to 2.5 percent), which are akin to fixed income opportunities. Generally, loan terms begin with three years and are extended via renewals, with semi-annual interest payments and principal repaid at the end of the term, though the practice has been to rollover loans when they reach term.

In addition, a Green Revolving Fund serves as an internal mechanism to finance energy-efficient projects that have a payback of less than three years. The initial \$700,000 project replaced an inefficient medical gas chiller saving millions of gallons of water as well as corresponding expenses.

Since 2008, Bon Secours has allocated more than \$34 million, or approximately 2.6 percent of its \$1.3 billion long-term investable assets, to support affordable housing, economic development, community facilities, and other projects that benefit community members. Bon Secours currently has 20 outstanding investments in markets it serves domestically and internationally. Bon Secours has not had any defaults and all interest payments (semi-annual) have been made in a timely manner.



Edward Gerardo is a Social Impact Consultant and former Director with Bon Secours Health System focused on Community Commitment and Social Investments.



FINANCING YOUR FOOD SHED:

Slow Money Central Virginia

BY HUNTER
HOPCROFT

SHALOM FARM,
MIDLOTHIAN, VA

Since the mid-1960s our retreat from the land has been almost total. As we moved to the city for office and factory jobs, we left behind our connection to the land and the food it produces. When en masse we abandoned rural life, we forgot the benefits of community, self-sufficiency and protection of the commons. While we feasted at the table of cheap food, we sold our future to corporations who don't have the best interests of our health, our landscapes, or our communities at heart.

Conversely, interest in local and regional food systems has grown considerably over the last decade and a new crop of young (mostly female) college-educated farmers have come back to the land, seeking meaningful work and the freedom of entrepreneurship. Investors have an opportunity to create regional financing networks for these business-owners, contributing much needed financial capital while fostering social capital that can grow and strengthen local food systems.

**THE MOVEMENT
HAS SPAWNED 28
GROUPS ACROSS
THE NATION,
ACCOUNTING FOR
\$57 MILLION IN
INVESTMENTS IN
OVER 600 FOOD
AND FARMING
PROJECTS.**

Slow Money groups, impact investing funds, and community banks can all work towards filling the gaps and healing the scars left by industrial agriculture and modern banking.

THE OPPORTUNITY

Slow Money was founded in 2008 by Woody Tasch, an early impact investing leader. Tasch and Slow Money encouraged investors to consider allocating capital more locally, to projects and businesses that improved the health of the soil and their local food economy. The movement has spawned 28 groups across the nation, accounting for \$57 million in investments in over 600 food and farming projects. These investments have taken many forms (including equity, debt, royalty financing, and convertible debt) but they have all been made in the spirit of “nurture capital... (which is) built around principles of carrying capacity, care of the commons, sense of place, diversity and nonviolence.”

We believe Central Virginia is rich with opportunity for those interested in allocating a portion of their investable assets into sustainable agriculture. In addition to the many farm businesses in the region, cultural centers in Charlottesville and Richmond have vibrant food scenes that are demanding locally-produced product. Community-driven financing of farm businesses should be a natural evolution of healthy and growing regional food economy.

HOW IT WORKS

Every Slow Money network operates differently based on the needs of their region. Slow Money Central Virginia is launching with two initial programs; one that draws small investments from a wide community and another that targets larger investments.

Foremost, the SOIL (Slow Opportunities for Investing Locally) program is only the fourth of its kind in the nation. The SOIL program pools tax-deductible donations into a revolving, 0% interest micro-loan fund. These funds are for short-term (1-3 year) loans under \$20,000. This money is intended to help small farms get the equipment and resources they need to grow their businesses effectively. That may mean purchasing a tractor, building new hoop-houses, or purchasing seed stock. These loans fill a gap in the financial system and serve as a backstop to USDA-run loan programs that are subject to the whims of government budget changes. Because of the small-dollar amounts and abbreviated terms, loan applicants pay a flat loan servicing fee versus a traditional rate.

Beyond these smaller loans, Slow Money Central Virginia aims to catalyze peer-to-peer lending by acting as a gatekeeper, adviser and, in time, even as a loan servicer for investments. There is also the opportunity to work with other agencies, public and private, to catalyze larger projects. Slow Money groups or individuals within a network can provide equity or “equity-like” capital that

can help a small-business access traditional bank financing. This type of arrangement is great for capital intensive businesses that will have appropriate collateral after start-up. Either by depositing money as a guarantor or giving the business loans with long-terms and flexible pay-back a Slow Money group can act as one part of a mosaic of funding sources that ultimately bring a project to fruition.

THE IMPACT CASE

Whether by making micro-loans or by assisting with syndicated financing of larger projects, Slow Money investments have the accretive benefits of supporting entrepreneurs from a network of their most-likely customers. That raises the odds of success and creates social capital that discourages and actively works to prevent defaults.

It is time for communities to begin financing their food shed. Doing so can grow regional food economies and bring a new crop of supporters into the tent of Local Food. These supporters include folks that may not relish canning or waking up early on the weekends to attend farmers markets, but who can understand the benefits of growing the local food market in their community.



Hunter Hopcroft is a co-founder of Slow Money Central Virginia. After a career in asset management Hunter opened several local-food retail businesses and is now a project manager for Ellwood Thompson's Local Market in Richmond, Virginia.

CASE STUDY:



Skowhegan, Maine was a declining mill town. In its heyday it produced enough grain to feed 100,000 people, but commodity agriculture had largely destroyed the wheat farming and milling industry in Skowhegan. That was until Amber Lambke, a local-food advocate, and Michael Scholz, a baker, bought the old country jail for \$60,000. Using a \$367,000 patient capital loan from Slow Money Maine, they leveraged that capital with a community bank and a local economic development office into a \$1.4 million dollar project. The county jail now houses a gristmill turning out Maine Grains flours and grains for retailers and restaurants. The building also houses the Skowhegan Farmer's Market and a youth-run technology center.

The Slow Money Maine investment was given without principal or interest payments due in the first five years, and a sub-5% rate after that. Involving the community as part of a project's financing schema not only helps larger projects come to fruition, but also improves their odds of success by recruiting community support at earliest stages to build crucial social capital alongside the financial capital.



INVESTING IN AFFORDABLE HOUSING:

*Reducing Poverty,
Creating Home*

BY SARAH
HALE

CAROLYN LOFTIN
AND FAMILY
- URBAN HOPE TENANT

“We’ve
got to move.”

It’s an all-too-familiar phrase in Richmond, VA. With an eviction rate that is second-highest in the nation, in 2016, Richmonders were seeing 17 evictions per day. While the data doesn’t yet reveal why this is happening, there is no doubt: the lack of affordable housing has reached a crisis level for our city. With a poverty rate of 25%, and a child poverty rate of 39%, Richmond has some of the biggest challenges in our state.

Urban Hope knows that a safe, affordable home can be a cornerstone of opportunity, eliminating the need for these agonizing choices.

Begun in 2000 as an agency to aid in increasing homeownership for the residents of the East End, the organization has been wholly run and governed by part-time employees and many volunteers who have poured in their time. But now, with two full time employees and a robust board, the organization is firmly established and poised for lasting growth.

HOW DOES UNAFFORDABLE HOUSING AFFECT FAMILIES?

Often, the struggle to keep a roof over their heads leads families to make excruciating choices:

MOVES to neighborhoods that are less safe, or even worse, into shared situations that are often overcrowded and that put children in unsafe situations

EXTRA SHIFTS OR SECOND JOBS, leading to exhaustion, childcare challenges, and the stress that ensues

CHANGING SCHOOLS, disrupting children’s educational and social progress

BORROWING MONEY, often from usurious sources, deepening debt

LESS MONEY spent on healthy food and healthcare

Using an impact investing model, Urban Hope engages investors by using their capital to purchase and renovate houses. These are either sold to tenants in a lease-to-purchase model, or rented to tenants who are not yet ready for homeownership. Investors agree to receive a 2.5% annual return on their investment, in exchange for a promissory note from Urban Hope that generally has a five-year term. Rental income provides the funds for maintenance of the homes and payment of the investor returns.

In short, investors allow Urban Hope to use their money for a limited period of time in order to increase the supply of stable housing that is affordable to our lower income families.

A stable home that fits with a family's income has measurable benefits, including better outcomes in education, employment, and health. As stated above, a stable home is a cornerstone of opportunity.

One of the greatest aspects of this investment model is that it helps our investors use their assets to fulfill some of the deepest callings on their lives:

“Investing in housing has felt like a cornerstone of stewardship to our mission in this rapidly changing neighborhood. We believe all financial resources ultimately belong to God, so we know we are called to allow our wealth to be used by others to gain access and stability that they can actually afford, but that an unrestrained market often locks them out of.” – Lawson Wijesooriya, Urban Hope Investor

“INVESTING IN HOUSING HAS FELT LIKE A CORNERSTONE OF STEWARDSHIP TO OUR MISSION IN THIS RAPIDLY CHANGING NEIGHBORHOOD. WE BELIEVE ALL FINANCIAL RESOURCES ULTIMATELY BELONG TO GOD, SO WE KNOW WE ARE CALLED TO ALLOW OUR WEALTH TO BE USED BY OTHERS TO GAIN ACCESS AND STABILITY THAT THEY CAN ACTUALLY AFFORD, BUT THAT AN UNRESTRAINED MARKET OFTEN LOCKS THEM OUT OF.”

*– Lawson Wijesooriya,
Urban Hope Investor*

What makes Urban Hope so different? For one thing, we are serving the lowest income brackets. No other nonprofit in the area is providing rental opportunities that are aimed at helping families with incomes around 30% of the region's median household income. In addition, we provide financial counseling to our prospective tenants, as well as anyone else who wants to make a change in their lives and prepare for greater stability, whether or not that is in an Urban Hope house.

Interestingly, Urban Hope is operating in a neighborhood that is quickly gentrifying. We view this as both a challenge and an opportunity: the best outcomes for families happen in areas that have higher opportunities for good education, employment, and healthcare. These higher opportunities can arrive with gentrification. The challenge is to protect the community that is already present, preserving opportunities for families to remain as the neighborhoods improve around them.

Currently, there are 13 families living in Urban Hope houses, including two who have purchased their homes. We have two single family houses ready for renovation, and have just acquired a quadplex of two-bedroom units; in the coming year, the number of people we serve will increase by 50%. In our rentals, we have nearly 40 people who are positioned to improve their prospects, because they have a safe and stable place to live. Families have moved out of abusive situations. Kids have attended college. Plans are in the works for home purchases. Our investors are making these opportunities possible.

We invite you to join us, and consider this model for your own neighborhoods.

We've got to move.



Sarah Hale is the Executive Director of Urban Hope. Her thirty-year career was previously concentrated in interior design, with experience in communications, marketing, development, and public relations. It was her interior design work that led her to affordable housing, knowing that the power of home has broad impacts.

INVESTING IN VIRGINIA'S FUTURE ENTREPRENEURS:

*Illuminating our Innovation
Blind Spots*

BY ROSS
BAIRD

According to the Economic Innovation Group, 50% of firm creation since 2009—and the job creation it represents—has happened in just five metro areas, none of them in Virginia. Virginia investors need to find more effective strategies to identify and cultivate an entrepreneurial ecosystem which currently can hide the best opportunities sitting right in front of us.

JERRY'S STORY: THE 0-FOR-3 PROBLEM

Jerry Nemorin represents both the opportunity of the new economy, and the barriers that are causing the Commonwealth of Virginia to miss out.

JERRY
NEMORIN,
FOUNDER
AND CEO OF
LENDSTREET



Jerry's grew up poor in South Florida, and he saw his mom persistently get ripped off by payday lenders. He was the first in his

family to go to college, and he spent five years on Wall Street learning how the financial system worked with an eye towards starting a business that could help people like his mom.

He went to the University of Virginia's Darden School of Business in order to launch his startup idea. He started a firm

called LendStreet, which helps the 50 percent of Americans who have personal debt to refinance their loans—from student to auto to medical to credit card—and work themselves out of debt. Even though hundreds of millions of Americans were facing the problem Jerry was trying to solve, not one of the approximately 300 investors he pitched over a two-year period gave him funding. I met Jerry in the spring of 2014, and when I asked him why he struggled to raise funding, he explained: "Venture capitalists are all about pattern recognition. As a black guy, in Central Virginia, solving poor people's problems, I'm zero-for-three!"

Finally that year, Jerry got an initial \$500,000 investment from Mitch Kapor, co-founder of Lotus 1-2-3, and his wife Freada. The couple had set up Kapor Capital to invest intentionally in entrepreneurs who were undercapitalized by mainstream markets—zero-for-three founders, in Jerry's terminology. Three years later, Jerry has raised more than \$100 million from large banks such as JPMorgan Chase, and other institutional investors. He's on a path to transforming lives. But not in Virginia.

WHY JERRY'S STORY MATTERS TO VIRGINIA

Jerry's story is not unique—untapped potential in Virginia dies on the vine every day. According to the Kauffman Index, Virginia is the #1 state in the country at growing businesses, but mediocre, compared to other states, at starting them, ranked #25.

Virginia today lacks the infrastructure to support the growth of businesses like Jerry's. Virginia represents 2.5% of the GDP and 2.4% of the US population, but receives less than 1% of the early stage financing.

ABOUT VIRGINIA IS FOR ENTREPRENEURS: A POTENTIAL SOLUTION

In the fall of 2016, the firm I co-founded, Village Capital, organized a group of entrepreneurs, investors, and ecosystem builders across Virginia for the Virginia Velocity Tour, a bus tour that identified and celebrated entrepreneurial potential across Virginia's ecosystems.

Later that fall, Senator Mark Warner and Governor Terry McAuliffe convened a working group of representatives from Virginia's nine Innovation Ecosystems across the Commonwealth to develop potential solutions. I've been lucky enough to co-chair this group with Paul Hirschbiel, Chair of the 757 Angels in Hampton Roads. Building off Virginia's unofficial state motto, we named this group "Virginia is for Entrepreneurs."

This group is identifying tactical solutions to Virginia's entrepreneurial challenges, and we started by addressing the challenge of access to capital. Within Virginia, we noticed a consistent problem—entrepreneurs and investors are speaking different languages. Investors say, "I can't find any good deals," and entrepreneurs would say, "I can't find any good companies." To solve this problem, we launched what we call the "Investment Marketplace" to help entrepreneurs and investors speak a common language.

HOW THE MARKETPLACE WORKS – PUTTING ENTREPRENEURS AND INVESTORS ON THE SAME PAGE

As an example, let's look at Sam English, a Roanoke-based founder who started a company called Attention Point. Sam's figured out a way to make a more effective online assessment for ADHD.

Sam's made a lot of progress, but like any entrepreneur, he's had a hard time raising money. He's getting a few "Nos" and many more unreturned calls and emails.

Through the marketplace, Sam has engaged with Paul Nolde, a director at NRV, an early-stage venture capital fund based in Richmond. Sam and Paul used a pilot version of the Investment Marketplace to explore funding. The Marketplace uses a methodology to diagnose where Sam is on the entrepreneurial journey from Level 1 (a dreamer with an idea on paper) to Level 9 (a wildly profitable large company), and matches entrepreneurs with people who can help them at every step of the way.

Sam learned that he was a Level 5 entrepreneur, while Paul communicated that NRV tends to invest at Level 6 and 7.

What would have been a "no" in the past instead turned into a conversation about milestones: Paul was able to say "not today," but highlighted what Sam would need to do to be a great candidate for NRV investment one day.

From Paul's perspective, the process helped him add value beyond money. "I hate saying no to founders who are too early-stage," said Paul. "Being able to help Sam diagnose his progress, and gaps, made me add much more value."

WHERE DO WE GO FROM HERE?

The Marketplace, which you can find at va4e.org, is one step for how investors in Virginia can be worked for entrepreneurs like Jerry, Sam, and many others. In its first six months, from December 2017 to May 2018, over 300 entrepreneurs and 100 investors registered, and we're just getting started.

Virginia is for Entrepreneurs is just one example of how building infrastructure helps speed the volume and flow of capital to entrepreneurs, who need to hire people, find real estate, and commercialize their technologies outside of universities. We hope that investors can engage in efforts like this to support Jerry, and the thousands of Virginia entrepreneurs like Jerry, to move the Commonwealth forward.



Ross Baird is the President of Village Capital. Before launching Village Capital, he worked with First Light Ventures, a seed fund focused on impact investments.

VIRGINIA VENTURE CAPITAL

and Impact Investing

BY LIZ
DOERR

WILL MORRIS,
FOUNDER AND CEO
OF EDCONNECTIVE,
PRESENTS HIS COMPANY'S
INNOVATIVE ONE-ON-ONE
INSTRUCTIONAL COACHING
PLATFORM. BOTH CIT GAP
FUNDS AND VILLAGE CAPITAL
ARE INVESTORS.

Venture investors are increasingly recognizing that generating above market financial returns and making a positive impact on the world doesn't have to be mutually exclusive. In 2015, Cambridge Associates published its first impact investing benchmark and found that returns of impact investing funds are comparable to those of conventional funds, with some impact-focused funds even outperforming traditional funds. The following funds are seeking financial returns by investing in impactful companies here in the Commonwealth. While not all of the funds are explicitly marketed as impact funds, they all subscribe to the philosophy of doing well by doing good.

SJF VENTURES

SJF Ventures invests in high-growth companies creating a healthier, smarter and cleaner future. The fund's mission is to catalyze the development of highly successful businesses driving lasting, positive changes. Founded in 1999, SJF now has offices in Durham, San Francisco, New York, and Seattle, although one of the managing directors is based in Richmond. SJF, with \$250 million in assets under management, has a nationwide focus and recently made an investment in a Richmond-based sustainable packaging company.

That company, TemperPack, stood out to SJF as "a highly innovative company purpose-built to compete effectively against the existing, uninspiring insulation solutions. The company refutes perceptions that 'green' should require meaningful trade-offs in effectiveness or price." TemperPack solves thermal packaging problems through sustainable design. They specialize in bringing custom solutions for clients to scale in the perishable food and life sciences industries. TemperPack is on a mission to eradicate styrofoam, the predominant form of packaging used in the cold chain. Their products are equal in performance and durability and they have already diverted 10 million pounds of plastic foam from landfills through the use of their solutions.

VILLAGE CAPITAL

Washington, DC-based Village Capital intentionally invests in companies that, in addition to seeking attractive financial returns, are solving social and/or environmental problems, with a focus on economic opportunity and resource sustainability. The \$18 million fund, which was founded in 2009, focuses on two major problem-solving areas: access to opportunity for underserved communities (through health, education, and financial inclusion ventures) and resource sustainability of the planet (through energy and agriculture ventures).

A recent investment example in the education space was Richmond-based EdConnective. This startup provides live one-on-one instructional coaching to foster teacher growth and impact student achievement. The United States spends billions of dollars on evaluating and improving our pro athletes, management consultants, and investment bankers, yet teaching is a craft and profession whose best people are under-resourced. EdConnective seeks to provide world-class coaching and talent development to our nation's teachers.

CENTER FOR INNOVATIVE TECHNOLOGY GAP FUNDS

The Center for Innovative Technology (CIT) creates technology-based economic development strategies to accelerate innovation, imagination and the next generation of technology and technology companies. Created in 1985, CIT, a Northern Virginia non-profit corporation, plugs gaps at the earliest stages of the Innovation Continuum – commercialization and seed funding – as it helps entrepreneurs launch and grow high-growth technology companies and create high-paying jobs for the future.

CIT GAP Funds is a \$25 million family of seed and early-stage investment funds placing near-equity and equity investments in Virginia-based technology, life science, and cleantech companies. CIT GAP Funds invest in companies with a high potential for achieving rapid growth and generating significant economic return for entrepreneurs, co-investors and the Commonwealth of Virginia. CIT's GAP Venture Fund began deploying capital in 2005.

The most recently created fund is the Virginia Founders Fund (VFF), a seed fund designed to increase investment opportunities for Virginia-based entrepreneurs traditionally underrepresented in venture capital. VFF is dedicated to investments in minorities, women, and veterans across the Commonwealth, or other entrepreneurs located in regions outside of Northern Virginia. VFF identifies and funds entrepreneurs that have founders representing traditionally underfunded demographics in venture capital. VFF expands opportunities for startups and enables entrepreneurs throughout the Commonwealth to create new sustainable companies, regardless of their demographic or location.

NRV

Founded in 2011, Richmond-based NRV currently has a \$33 million early stage growth fund that was launched in 2017. NRV embraces high growth companies led by exceptional teams that capitalize on the emerging trends that are changing the world. NRV invests in early stage growth companies that are post proof-of-concept with demonstrated market traction.

While NRV is not held to a specific impact investment mandate, its managing team is guided by a common sense of purpose and believes that the best financially performing companies will be companies that are developing products in impactful industry verticals such as healthy lifestyles, sustainable energy, disruptive technology and healthcare innovation. To that end, one investment example is Richmond-based health food startup Health Warrior, a snack brand featuring superfoods as the first ingredient in all of the company's products. Health Warrior believes that better health will build a stronger society not only through superior nutrition in its snack products, but also by direct impact with the community. In 2017 the company raised over \$40,000 to support a farm restoration project in Mexico's drought-ravaged Copper Canyons, the home of the Tarahumara Indian tribe. The tribe's legendary marathon runners, fueled by chia seeds, inspired the company's founders to start the business. Health Warrior also partners with US-based organizations such as the Whole Kids Foundation to bring healthy foods to students and schools by funding salad bars in schools, school gardening programs and teacher education. Earlier this year they teamed up with make-up mogul Bobbi Brown to create the "world's most beautiful bar," a dragon fruit chia bar with 100% of the profits from the sales of the bar going to Girls Inc.



Liz Doerr is a founding partner at Sandbox where she serves as a fractional CFO for scaling early stage companies and helps start-ups prepare for future growth, capital raises or acquisitions. She is the founder of Virginia Women in Venture aimed at growing the number of female investors in venture capital/private equity.



PLACE-BASED IMPACT INVESTING

in Danville, Virginia

BY KARL
STAUBER

THE JTI FOUNTAIN
IN DANVILLE'S RIVER
DISTRICT ON MAIN
STREET PLAZA.

At Danville Regional Foundation (DRF), we work every day to answer this question: what is the future of communities like ours? Places that had strong economies in the past, but now appear to be left behind. Places where once you could play by the rules and work hard and you would more than likely have a better and longer life than your parents. And then expect that your children would likely outlive and out earn you.

Our reality has changed and no one can dispute this fact. We've weathered the loss of major industry, changes in agriculture and nationally a move away from rural development to focus on more investment in growing larger metropolitan areas.

But rather than give up, leaders in our community decided to rewrite our future. When the local regional hospital was sold in 2005 to a for-profit company, DRF emerged as a health conversion foundation that was established to focus on "creating a new economy and a new culture that makes prosperity possible for all the region's residents."

Located in Danville, Virginia, we operate with a broad mandate that includes education, economic development,

health and wellness and community development within a defined rural geography of approximately 120 square miles in both Virginia and North Carolina.

DRF has a current investment portfolio of approximately \$230 million and has distributed nearly \$100 million since its inception. Our portfolio is externally managed and broadly diversified under policies created and monitored by DRF's investment committee and approved by its Board of Directors.

When the Great Recession hit in the late 2000s, DRF's portfolio lost approximately 25% of its value in a short period of time. This led DRF's investment committee to explore different types of investment opportunities to increase our yield in a variety of ways. This included taking a closer look at mission-related investing.

After two years of exploration, examination of best practices and comprehensive legal preparation, in 2013 DRF created a limited liability company (LLC) to manage a portfolio of up to \$10 million designated for a local distressed real estate fund. This fund is designed to provide DRF with market rate returns for the risk being taken and to advance DRF's mission of growing a stronger economy while revitalizing our community.

The one thing we did know before beginning this project is that we knew little about how to make local real estate

investments. We didn't know how to identify smart investments and how to plan for their maximum return. We contracted with an external private firm highly experienced in this work, and with oversight from a separate board of managers reporting to DRF's board, the LLC has led the acquisitions and day-to-day operations of property.

DRF is close to completing the acquisition phase, which will then be followed by strategy development and developer recruitment for our properties. We are in year 5 of what is likely to be at least a 10-year program.

It is important to note that where we invested in distressed real estate was just as important as the how and the return. We made a decision early that all of these investments be made in a historic part of Danville known as the River District.

Why did we choose to invest in distressed real estate within Danville's River District? As our first foray in to mission-related investing, the River District provides the best opportunity for return on investment and it was preceded by several years of grant-making led redevelopment, often in cooperation with city government.

As with many main street communities in rural towns across the country, Danville's downtown had become forgotten

**DANVILLE
REGIONAL
FOUNDATION
HAS A CURRENT
INVESTMENT
PORTFOLIO OF
APPROXIMATELY
\$230 MILLION AND
HAS DISTRIBUTED
NEARLY \$100
MILLION SINCE ITS
INCEPTION.**

and underutilized. Architecturally, the buildings still had much to offer – especially the empty tobacco warehouses near the riverfront – but major investments were needed to breathe new life into the renamed River District.

Working with a strategic revitalization plan developed by the City of Danville, in our first 10 years of operation DRF distributed approximately \$25 million in qualifying grants to revitalize and renew the River District. Combined with major support from the City of Danville, the River District has seen its living and working populations grow by over 400% and its private sector investments increase by over \$130 million.

There are new restaurants, new lofts, new businesses and new streetscapes that have changed the entire footprint of the River District area. By investing in distressed properties within the River District, DRF is investing in the future of the economic viability and sustainability of our region's historic assets. As these properties are acquired and stabilized, we can then move to playing a catalytic role in their re-use over the next 5 to 10 years.

So what does the future look like for a community like ours? It's nearly impossible to predict but through targeted mission-related investments, we are creating different avenues of return that we can then use to reinvest into the continued transformation of the Dan River Region.



Karl Stauber is Danville Regional Foundation's President and CEO. Stauber has worked for the Northwest Area Foundation, the Needmor Fund, and the Babcock Foundation.



Virginia Foundations

COLLABORATING FOR IMPACT (INVESTING)

BY MARK
CONSTANTINE
AND SANDRA
MIKUSH

Impact investing is a growing field within philanthropy, offering powerful new tools for achieving mission impact and prompting foundation boards and executives to consider social and environmental impact alongside financial returns as part of their fiduciary responsibility. National organizations such as Mission Investors Exchange, Confluence Philanthropy and BALLE have emerged to provide support to foundations as they embark on the impact investing journey, and the Urban Institute recently issued a report highlighting place-based networks emerging across the country. One such emerging network holds promise for increasing philanthropic impact and collaboration across the Commonwealth.

Through the Virginia Impact Investing Learning Group, nine Virginia foundations recently embarked on a collaborative learning and action journey around impact investing. The informal initiative is an outgrowth of a day-long Executive Exchange on impact investing for foundations and financial institutions presented by Mission Investors Exchange in Richmond last year. Mark Constantine, CEO of Richmond Memorial Health Foundation (RMHF), and Karl Stauber, CEO of Danville Regional Foundation, convened a follow-up meeting of foundation CEOs and CFOs in December 2017 to explore mutual interests around advancing impact investing.

From the outset, interest was strong, and the Virginia Impact Investing Learning Group has attracted the interest of foundations representing diverse geographies across the Commonwealth. Participants include RMHF, Robins and Cabell Foundations in Richmond; Danville Regional Foundation, Alleghany Foundation, Williamsburg Health Foundation, PATH Foundation in Fauquier Co., Cassiopeia Foundation (formerly blue moon fund) in Charlottesville, and the Cameron Foundation in Petersburg. The foundations have different motivations and levels of experience around impact investing, but all are committed to learning how to apply these new tools for greater impact while exploring ideas for collaborative action.

For some foundations, impact investing is appealing because it taps into endowment funds and unleashes significantly more financial assets toward mission. For others, their fiduciary responsibility compels trustees to consider how foundation investments align with their mission and values. All of the foundations are interested in understanding how to use this type of investing effectively to deepen and expand impact. Christy Connolly explains the PATH Foundation's interest in this effort: "We are eager to take our first steps in impact investing as we work to integrate all of our tools in innovative ways to address community health needs. We have learned from Danville and Richmond Memorial Health Foundations and are excited to be part of a statewide collaborative."

The group seeks to balance learning with action and is committed to meeting foundation boards and staffs where they are on their impact investing journey. Stories about successful impact investments in Virginia and elsewhere are helpful for those new to the field. During the initial meetings, participants have shared their experiences with impact investing through brief “flash talks”, and plans are in place to develop a menu of peer and expert learning topics that can be shared across the network. Some of the potential learning topics include:

FOR SOME FOUNDATIONS, IMPACT INVESTING IS APPEALING BECAUSE IT TAPS INTO ENDOWMENT FUNDS AND UNLEASHES SIGNIFICANTLY MORE FINANCIAL ASSETS TOWARD MISSION.

understanding the “capital stack” and roles foundations can play, the framework of an entrepreneurial ecosystem, building community capacity and readiness for investment, and impact measurement. A survey of trustees is planned to further refine learning priorities.

The nine foundations have diverse interests and geographic priorities, but they have identified several areas for potential collaboration and action. Housing is a critical

issue for many foundations, including cities where public housing challenges affect the health and well-being of low-income families and fast-growing suburban communities working to preserve and restore affordable housing and support equitable neighborhood development.

Additionally, many of the participating foundations are rooted in a mission to improve health access, reduce health care costs, and address the social determinants of health, including early childhood development, education, access to healthy food and other efforts to create equitable opportunity and improve health outcomes. These common interests have motivated the group to explore innovative ways to use impact investments to bring new resources and demonstrate measurable impact on human service delivery. One such model is Pay for Success, a relatively new financing model that ties the returns on mission-related investments to the successful performance and outcomes of service providers. This translates into cost savings to governments and returns to investors. “Pay for Success has had powerful results across the country through improved outcomes for children and families and savings for government agencies,” notes Karl Stauber. “We are excited about exploring opportunities to use the model to bring together public and private sector partners to address big challenges that affect all of our communities.”

While the Virginia Impact Investing Learning Group is still in its early stages, participants see promise in learning together and applying new knowledge toward collective action that will increase the health and well-being of people and communities across the Commonwealth. There is great potential for this group to move impact investing into the mainstream of Virginia philanthropy and to accomplish together more than what any one of our foundations can do alone.



Dr. Mark D. Constantine is president and chief executive officer of Richmond Memorial Health Foundation (RMHF). Prior to joining RMHF, he served as senior vice president at the Jessie Ball duPont Fund in Jacksonville, Florida, where he directed the Program-Related Investment and affordable housing activities of the Fund.



Sandra Mikush is a philanthropic consultant who brings 25 years’ experience working in community development across the Southeast with the Mary Reynolds Babcock Foundation. Her consulting practice focuses on impact investing and the Just Transition Fund, which she co-founded in 2015 to direct national philanthropic resources to coal communities making the transition to a new energy economy.

IMPACT INVESTING

in Rural Virginia Economies

FLOYD COUNTRY STORE,
FLOYD, VA

BY
CAROLINE
NOWERY

The decline of the agriculture, manufacturing, and coal industries have significantly reduced economic opportunities in southwestern Virginia communities. These changes have rendered traditional economic development strategies ineffective and compel local economies to search for new revenue-generating industries and sectors.

Nationally, a popular non-traditional strategy for economic growth has been tourism tied to entrepreneurship. Tourism brings in new audiences and generates growth in other sectors such as retail, hospitality, and real estate. Many rural communities are embracing entrepreneurial ecosystems based on rural tourism as a key component to their economic revitalization.

These initiatives utilize local assets – people, buildings, and investments – to transition from extractive and manufacturing-based industries to capitalize on local, natural assets and entrepreneurialism. Endeavors in music, artisanship, and tourism-based outdoor recreation can build more sustainable models to help revitalize communities by supporting small businesses and job growth.

Entrepreneurship can revive communities through local resources, such as talent, to help keep rural populations from declining even further. By fostering entrepreneurial growth these communities can diversify

their economies and become less affected by challenges such as plant closures, relocations and the seasonality of much of the agricultural industry.

Take Floyd as an example. For six generations, the Floyd economy was built on agriculture and manufacturing. Today, nearly six in 10 Floyd employees commute out of the county to work.

With a population of 631, the town of Floyd (in Floyd County) has blended entrepreneurial efforts and public/private partnerships to create rural revitalization, while layering in a local place-based impact investing strategy.

Like other communities in Southwest Virginia, Floyd has a rich culture of arts and crafts and country music. In recent years, Floyd, like other towns along the “Crooked Road,” has begun to capitalize on its cultural traditions, especially its Friday Night Jamboree at the Floyd Country Store, which started in the 1980s and traces its roots back much further.

By 2002, the Floyd Country Store had fallen on challenging times. Although its owners continued to offer a traditional Jamboree, the store had become dilapidated and was no longer selling goods. Around the corner, a grocery store had also fallen into disrepair and when a new Food Lion opened nearby, the store closed.

Concerned that the vacant grocery store space might be occupied by a chain retailer that could further impact the charm of the downtown area, resident Woody Crenshaw

purchased the building in 2004. Over the course of the next few months, he wrote a white paper in which he asked his friends to invest in the building as a way of revitalizing the downtown. Crenshaw's friends and acquaintances responded and in 2005 an investment syndicate was formed to refurbish and repurpose the building that would become The Village Green, a multi-tenant general commercial facility with 14 units.

The Floyd Country Store's own 2007 restoration revitalized the business and the Friday Night Jamboree continues, drawing visitors every week from across the country and around the world.

Floyd is a model for the type of opportunity that exists in this rural region of the Commonwealth.

Travel to Southwest Virginia has increased 53 percent over the past decade — a rate higher than any other region in the state, according to Virginia Tourism. In 2012, revenue from tourism to Southwest was calculated at nearly \$1 billion a year by Friends of Southwest Virginia. Investors have put millions into hiking, biking, and ATV trail development and created hundreds of new jobs in the surrounding areas and supporting industries. Southwest Virginia's new tourism-focused economy is also reliant on small businesses to support the ecosystem.

There are other examples of multi-layered investments in catalytic projects that have contributed to the successful revitalization of Floyd. Virginia Community Capital (VCC), in partnership with the Department of Housing and Community Development and the Virginia Housing Development Authority, provided financing for "The Station,"

a mixed-use facility with commercial retail space catering to small business enterprises and nine apartments, five of which were reserved for low-to-moderate income residents.

Investments like these in Floyd and beyond present a growing movement of collaborative place-based impact investing which pairs both social and financial returns. The Village Green investment, for example, was not just the act of one local resident, but of many citizens concerned with the revitalization of downtown Floyd. In addition to local efforts, partners like VCC and additional stakeholders played a role in this unique public/private partnership. These investments included debt capital, equity, and in one case utilized New Market Tax Credits to pay off a construction loan.

This successful investment strategy demonstrates how collaborative place-based investments can infuse catalytic capital into rural communities to spur revitalization in Virginia, but can also serve as a model for other struggling rural economies across the United States.

Economic developers will never stop searching for "big box" economic development plays and large masses of jobs that may come with a new manufacturing facility, coal plant, or call center. But they must also recognize the value of our natural resources and cultural assets, and support the ever-changing economic landscape.

TAKE FLOYD AS AN EXAMPLE. FOR SIX GENERATIONS, THE FLOYD ECONOMY WAS BUILT ON AGRICULTURE AND MANUFACTURING. TODAY, NEARLY SIX IN 10 FLOYD EMPLOYEES COMMUTE OUT OF THE COUNTY TO WORK.



Caroline Nowery is Director of Community Investments at Virginia Community Capital (VCC), a Community Development Financial Institution (CDFI) with offices in Richmond, Christiansburg, and Norfolk. CDFIs like VCC combine both private and public-sector investors to create economic opportunities in low-income areas or in projects that help promote economic revitalization. VCC loans are focused on raising quality of life in communities through job creation, access to medical care and healthy food options, and the development of affordable housing units.

The Floyd Impact Investing story was highlighted in "VCC Efforts in Three Rural Communities and Accelerant Model of Community Revitalization" prepared by John Accordino, Ph.D., FAICP and Fabrizio Fasulo, Ph.D., VCU Center for Urban and Regional Analysis, July 16, 2014



IMPACT INVESTING IN APPALACHIA:

An Ecosystem Approach

BY STEPHANIE
RANDOLPH
AND JEN
GIOVANNITTI

SOLAR PANELS ON
CAMPUS OF MOUNTAIN
EMPIRE COMMUNITY
COLLEGE IN BIG STONE
GAP, VIRGINIA

The virtual explosion of impact investing is signaling a change in how investors deploy capital. Yet unfortunately, impact-motivated investment dollars primarily flow to the coasts, to big cities, and to people who look and act like the investors. Seeing an opportunity to change this paradigm, the Appalachian Funders Network (AFN) launched an initiative to explore the region's readiness and need for impact-motivated capital. Over its ten-year history, members of AFN have worked closely with public and private partners to overcome funding gaps and focus resources to accelerate and expand market development to increase impact.

The region of Central Appalachia includes 234 counties in the Appalachia parts of six states: West Virginia, Ohio, Virginia, Tennessee, Kentucky and North Carolina. Known for being rich in natural resources, this relatively remote and rural region, dotted with small mountain communities, has endured more than a century of heavy resource extraction which has taken a toll on the environment, health, and social welfare of its residents. Trends in Central Appalachia as seen through the American Community Survey show population loss, poor health outcomes including exceptionally high rates of death by opioids,¹ an aging demographic, and rates of educational attainment that are much lower than national averages.² When the Great Recession hit in the

late 2000's³ (the longest economic downturn since World War II), it awakened community leaders in Central Appalachia to the urgent need for diversification and a path to greater prosperity for its people.

The challenge for the AFN was to assess regional capital supply and demand, and to shine a light on the space between the funding and financing opportunities where impact investing could meaningfully engage in the region. This assessment served as the foundation for a

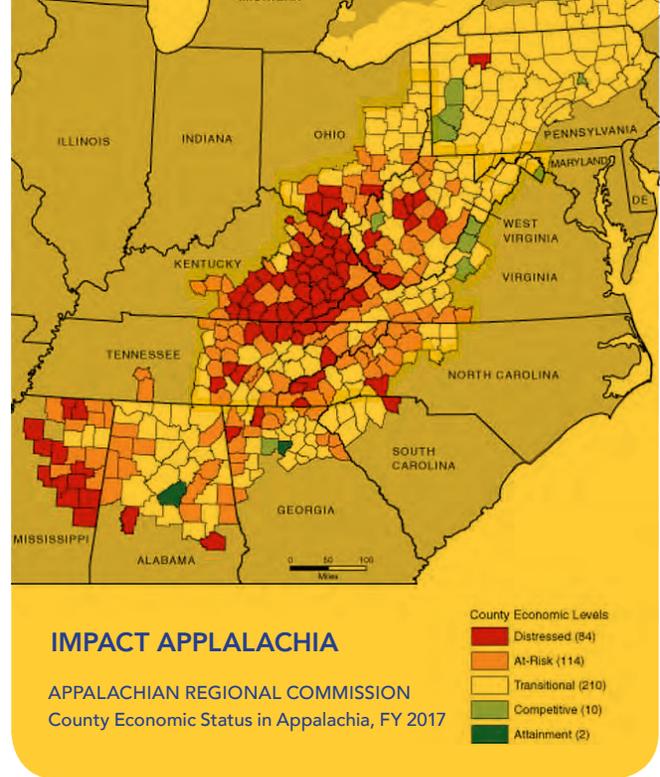
THE APPALACHIAN FUNDERS NETWORK (AFN)

AFN is an 80-member group of national, regional and local grantmaking organizations dedicated to accelerating the development of more diverse and resilient communities across the coalfields of Central Appalachia

new model for impact investing, when coupled with the grassroots expertise of twenty-five community leaders, including community development financial institutions (CDFIs), advocacy groups, community and economic development practitioners, governmental and philanthropic partners,. Working under the name Impact Appalachia, a first of its kind, market-making platform was designed to aggregate opportunities and blend available capital to strengthen the region’s readiness and capacity to absorb capital, advance the development of promising sectors, and invest in infrastructure and investment ready businesses.

THE CHALLENGE WAS TO SHINE A LIGHT ON THE SPACE BETWEEN THE FUNDING AND FINANCING OPPORTUNITIES WHERE IMPACT INVESTING COULD MEANINGFULLY ENGAGE IN THE REGION.

The vision for Impact Appalachia is to apply an integrated capital model to balance and blend capital from a \$17 million pool of catalytic, grant-like capital with the deployment of \$40 million of returnable investments from a fund. The catalytic capital will be used strategically to address gaps and barriers to investment. This may take the form of technical assistance, credit enhancements to support under-collateralized, aspiring entrepreneurs, or matching funds for state and federal grants, as well as support for workforce development and value chain expansion to ensure the emerging sectors have the human and technical capacity to grow. These catalytic grants will be directly tied to the capital deployed by the Fund to transition growing businesses and essential infrastructure projects from ones based solely on subsidy to ones increasingly ready for mainstream markets. Capital from the fund will be raised from impact-motivated investors interested in advancing clean energy, food and agriculture production, environmental restoration and the critical social determinants of health that are essential for community resiliency and a thriving workforce.



In addition to these positive social and environmental impacts, the ten-year horizon is expected to provide financial returns of 2-3%. The AFN is in the final stage of the design process and looks to formally establish Impact Appalachia and begin a capital raise in January 2019.

Whereas traditional capital markets are disincentivized to invest the needed capital to advance low-income communities, the diverse stakeholders in the AFN are optimistic that this blended strategy will appeal to impact-motivated investors and lead the way to a systems change approach in how investors reach their social and financial goals in rural regions.



Stephanie Randolph is a team member at Cassiopeia, a philanthropic investment vehicle and a leader of the AFN’s Impact Investing Initiative.



Jen Giovannitti is President of the Claude Worthington Benedum Foundation and former regional community development manager with the Federal Reserve Bank of Richmond

¹*Appalachian Diseases of Despair. August 2017. Michael Meit, Megan Heffernan, Erin Tanenbaum, and Topher Hoffmann. <https://www.arc.gov/research/researchreportdetails.asp?REPORT>*

²*The Appalachian Region: A Data Overview from the 2012-2016 American Community Survey*

³*March 2018. Kelvin Pollard and Linda A. Jacobsen https://www.arc.gov/assets/research_reports/DataOverviewfrom2012to2016ACS.pdf*

³*https://www.federalreservehistory.org/essays/great_recession_of_200709*



Impact Investing

DEVELOPS FOR ALL INVESTORS

BY ROBERTA
KELLER

The value of investing is no longer just about financial performance. Increasingly, investors desire their money to make a positive impact on their community, the world at large, and to make investment choices that align with their values.

Sustainable, Responsible & Impact investing (SRI) has its roots in the 18th century with Methodists and Quakers seeking to avoid investments that went against their religious beliefs and personal values. These communities actively avoided partnering with or investing in companies that manufactured liquor and tobacco products or that promoted gambling. Social activism in the 1960's and 1970's (civil rights, the Vietnam War, Apartheid, and labor management issues) triggered a significant expansion in the SRI movement, with mutual fund companies such as Calvert and Parnassus Investments leading the way. Since the 1990's, as demand has increased, funds and strategies that integrate social or ethical considerations into the investment process have proliferated. As of 2016, professionally managed assets in the U.S. that take into consideration environmental, social and governance (ESG) impact factors account for \$8.72 trillion as of 2016, a 33% increase since 2014.¹

Technological advances and access to information about climate change and issues related to corporate governance,

labor rights, human rights, and women's rights have been key drivers of this growth. This increased awareness has propelled many to make significantly different choices about how they spend and invest their money.

Investors now have a plethora of ESG-focused equity investment options from which to choose, as well as an increasing number of ESG-focused bond options. Gone are the days when the myth that investors could not get a similar return to conventional investments was a cornerstone of the conversation. Today, one can invest in ESG exchange-traded funds (ETFs) or mutual funds that are nearly 100% correlated with the performance of the S&P 500 Index. (Note: it's worth considering fund fees and liquidity before investing – ESG mutual fund fees tend to be higher than their ETF counterparts.)

While performance and risk continue to be key drivers in the decision-making process, a third pillar is now part of the conversation – the impact of the investment. While filtering on ESG factors adds a degree of complexity, it's clear that investors increasingly want to know

**TRENDS IN SRI
INVESTING ARE
POSITIVE, HOWEVER
SOME GROWING
PAINS STILL EXIST.**

the impact their dollars are having - either positive or negative. A question on many investors' minds is how to incorporate this third pillar into their investment selection process.

A BALANCED IMPACT PORTFOLIO EXAMPLE

As a Certified B Corp, Alexis Advisors has a focus on profit and purpose, with a core goal of supporting investors in being intentional about how they spend and invest their money. Our process begins with a conversation and a risk tolerance questionnaire, which includes questions about the investor's interest in impact investing. We see a range in interest, so this process helps guide us on allocations to our portfolios. For those interested in impact, we might consider the following as a portfolio approach:

ESG-focused, Publicly Traded Investments/ Market Returns – Our proprietary portfolios are comprised of publicly traded ETFs, with investment options including equity, fixed income, and a few select alternative asset classes. ETFs are screened and selected based on multiple factors including: alignment with specific portfolio objectives, fees, liquidity and ESG ratings.

Our investment approach strives to balance what are often competing goals of maximum return, risk management, and social impact. We understand that at this time in the SRI movement, to accomplish this we need to include ETFs that are not 100% sustainable; however, our goal is to set a minimum threshold for a fund's level of sustainability.

To analyze the sustainability of an ETF under consideration for inclusion in our portfolios, we use Morningstar's rating system. Morningstar has partnered with Sustainalytics, a leading ESG data provider, to create this rating system. Ratings are not based on any absolute product or industry exclusion; rather, Sustainalytics analyzes the underlying data based on how well a company manages its overall ESG issues relative to industry peers. Morningstar then uses this data to calculate a fund rating of between one-to-five globes (zero globes is the lowest rating and five globes is the highest.)

An example of an ETF that may be included in our portfolios is the iShares MSCI KLD 400 Social ETF, which has been awarded five globes and has an explicit performance similar to that of the S&P 500 Index.

Morningstar Sustainability

Morningstar Sustainability Rating



Above Average

Percent Rank in Category: 18

Sustainability Score: 47

Based on 100% of AUM

With an objective of managing competing demands, our portfolios typically hold ETFs with three-to-five globes, enabling us to offer a range of options without compromising returns or the application of our risk mitigation strategies.

In addition to public market portfolio strategies, some of our clients also look for deeper local community impact. To support these clients, we may suggest they meet with Virginia Community Capital (VCC) and The Community Foundation (TCF). VCC Bank, a subsidiary of Virginia Community Capital, is an FDIC-insured bank that offers bank certificates of deposit and notes that go directly towards loans supporting renewable energy, affordable housing, and other high-impact projects. TCF and other Community Foundations are leading partners and advocates for philanthropy in communities around the country. Community Foundations provide the ability to set up a Donor Advised Fund (DAF), a philanthropic vehicle that allows donors to make charitable contributions to and grants from the fund, while receiving an immediate tax benefit from contributions. DAFs don't offer an investment return directly to the donor, however funds are invested to grow assets, enabling the donor to make a greater impact with their personal philanthropy.

In summary, trends in SRI investing are positive; however some growing pains still exist, with its application being both a science and an art. Investor demand has been and will continue to be the driving force behind the evolution of the SRI movement, so we encourage you to request that at minimum a portion of your investments are selected through the ESG lens.



Roberta Keller, a native of Richmond VA, is founder and CEO of Alexis Advisors, LLC, a fee-only registered investment advisory firm offering investment management and financial planning services. Roberta integrates mindfulness with her decade of institutional money management in Wall Street and London to offer clients a more holistic, intentional approach to their finances.

¹Report on US Sustainable, Responsible and Impact Investing Trends 2016, US SIF Foundation

An interview with
**LYNN ELLEN
QUEEN**



LYNN ELLEN
CONDUCTING A
LEADERSHIP WORKSHOP
AT THE ARMSTRONG
LEADERSHIP PROGRAM IN THE
CHURCH HILL NEIGHBORHOOD
OF RICHMOND, VA

Editor's Note: To get an idea of how investors are implementing impact investing strategies in their personal accounts, we interviewed Lynn Ellen Queen, owner of Queen & Associates, a leadership development firm.

Describe how you first got into impact investing.

I honestly didn't know what impact investing was when I first got started. My husband, an Episcopal priest, and I are committed to living by our values. When we were looking for an investment advisor, we wanted one whose values aligned with ours. Roberta Keller at Alexis Advisors was a perfect fit for us. Alexis Advisors is also a B Corp, and they have a stated value that they give back to their community, so we knew our values of making a difference aligned. At the time, I didn't know to ask how Alexis Advisors was doing impact investing. Later, I learned more about this but it honestly it wasn't on my radar at first. You could say that our values led us down this path.

Are you involved in the process of choosing investments?

No, I let Roberta handle all that. I'm sure that I could look into whether this company or that company is caring for the environment, but I leave all that to Roberta and trust that they are doing the best they can with the resources that they have.

I also remember you sharing that your business accounts are value aligned. How have you done that?

My firm's business accounts are held at VCC Bank, a Community Development Financial Institution (CDFI). Bill and I also have a personal account there. I heard the President of VCC, Jane Henderson, speak and I was convinced that I needed to align with their work. I like their dedication to helping people and ventures that have historically been ignored by commercial banks. They help people build businesses that grow employment in underserved areas, and they work to bring grocery stores and healthcare to places that don't have those basic services.

Working with VCC also helps my status as a B Corp. VCC is also a B Corp, so again, our values are aligned. And, to be certified as a B Corp, a company has to meet a certain threshold in an assessment of social and environmental actions. Banking with a CDFI like VCC Bank gave my firm credit towards certification. In addition, I've committed to donating time and money to the community and to be aware of the environmental impact of my firm, all of which help Queen & Associates maintain its status as a certified B Corp.

What would you say to those who argue that, in light of the sprawling global economy, your efforts are unlikely to change anything?

Well, things are certainly not going to change if people throw up their arms and give up before even trying. I take heart in the fact that there are many people who work to make the world a better place. There are over 2,500 B Corps worldwide, for example, meaning that there are thousands of employees who are focused on their community and the environment. And that's just one movement. Also, there are people in the impact investing world who are putting together funds that are socially responsible and proving that they can be as profitable as ones that are not. I'm not alone, and with the wisdom of older people and the enthusiasm of the young, the tide is turning this direction. I don't see that we have any choice but to try in every way we can to take care of our world and of each other.

I think it's helpful first to think about what your values are. Once you've put a name to them, it's easier to act intentionally to align your actions with your values. The next step, I think, is to find an investment advisor that you trust and whose values are similar to yours. They should also know about impact investing, so that you can invest well, both financially and in a way that aligns with your values.



Lynn Ellen Queen is the owner of Queen & Associates, a leadership development firm. Queen & Associates is also a registered B Corp. The B Corp motto is "using business as a force for good."TM

PAY FOR SUCCESS:

New Solutions for the Old Dominion

BY MARLAND
BUCKNER

Though in its infancy, Pay for Success (PFS) holds great promise to help Virginia tackle a host of costly social challenges. From prenatal care to homelessness prevention to workforce development, PFS offers Virginia policymakers a way to invest in lower-cost, proven solutions using data informed, evidence-based approaches. Still, the PFS story in Virginia remains one of unrealized potential as stakeholders work to overcome a range of obstacles in their efforts to move projects from the drawing board to implementation. An assessment of PFS efforts in Virginia since 2013 - planned, initiated, and tabled - demonstrates that a vibrant PFS ecosystem will require sustained cross-sector collaboration led by outcomes-focused policymakers and underwritten by a broad range of investors.

As the term connotes, PFS initiatives are those that reward success only after the goals have been achieved. Other terms, such as “Pay for Performance,” are sometimes used when describing this type of structure; regardless of nomenclature, these sorts of initiatives are generally considered part of the impact investing ecosystem. PFS typically works as follows: a private investor (either for-profit or not-for profit), a service provider, and a public sector entity enter into an agreement where the private investor funds the up-front cost so the service provider can implement a program or intervention. The parties agree on how success will be measured and evaluated

in advance – for example, in recidivism reduction, improved educational results, or decreased health care costs - and the public sector entity agrees to repay the investors if and only if the service provider meets agreed upon success measures. Since PFS typically focuses on programs designed to lower the cost of social services paid for by public funds, including incarceration, homelessness, health care, and others, “success” is typically expressed in terms of public expenditures avoided or reduced.

Today, the most significant barriers to broad adoption of PFS in Virginia are constitutional provisions that prohibit funding of projects beyond Virginia’s biennial budget cycle. At first blush, these provisions would seem to nullify the possibility of long-term, State-sponsored PFS projects since success is unlikely to be measured with any reliability over a 24 month period. However, as Third Sector Capital Partners outlined in its 2013 PFS feasibility study of prenatal home visitation

LOCAL ELECTED OFFICIALS IN VIRGINIA, INDEED NATIONWIDE, SHOULD MOVE QUICKLY TO MAKE THEIR JURISDICTIONS PFS LABORATORIES; THEY HAVE ONLY TAXPAYER DOLLARS TO SAVE.

for high-risk, low-income mothers – the first of its kind in Virginia – payment structure modifications could overcome these seemingly insurmountable hurdles.¹

Modifications to federal law have also helped lower some state level regulatory hurdles. The 2014 passage of the Federal Workforce Innovation and Opportunity Act opened the door to new PFS activities in Virginia as provisions in the law encouraged allocation of a percentage of federal workforce development dollars toward pay for performance initiatives. In 2015, Virginia’s General Assembly updated the State’s workforce development code to align with federal law. These policy changes prompted the Northern Virginia Workforce Development Board and its local workforce development agency, SkillSource, to pilot a Pay for Performance program across Fairfax, Loudon, and Prince William counties.² This program was designed to improve education and employment outcomes among youth aged 18-24 who have been in either foster care or the criminal justice system. This pilot is structured to provide payments to Fairfax Department of Family Services through 2023 if success measures are met.

But these plans and pilots remain exceptions that prove the rule. Absent the State’s ability to function as a final “payer” of PFS projects, the job of scaling of PFS in Virginia will fall to local and municipal stakeholders. Ironically, rapid local level prototyping of opportunities backed by a variety of investors could be just the catalyst needed to create a thriving PFS ecosystem in Virginia. A 2017 study conducted by the Corporation for Supportive Housing (CSH) on behalf of Virginia Supportive Housing (VSH) demonstrates one such a possibility.³

VSH proposed a PFS model designed to attack the homelessness challenge, in particular among so-called “super utilizers” of the criminal justice system in the metro-Richmond region. Designed as a collaboration with Homeward, the coordinating body organization for homeless services in the greater Richmond region, and the Richmond Center for Criminal Justice, this deeply researched, data rich, highly collaborative plan offers a clear path forward for metro-Richmond public entities to serve as final payers for the project. Although no public entity has as yet stepped forward,

given the amount of local level collaboration undergirding the project, its implementation remains entirely viable if a small number of decision-makers agreed to play the role of final payer.

Another constituency should be moving far more quickly to embrace PFS: Virginia’s local elected officials. PFS offers local level officials a unique way to “de-risk” social innovation efforts because public money is spent **only after benefits are proven**. PFS allows the public sector to reap the savings and social benefits of success with far less risk because economic losses associated with failed projects remain private. At worst, municipal officials stand to be accused of having tried new approaches that, if failures, cost the public nothing more than what it would otherwise have paid; hardly a political death sentence. It is for precisely this reason that PFS makes sense both politically and economically. Local elected officials in Virginia, indeed nationwide, should move quickly to make their jurisdictions PFS laboratories; they have only taxpayer dollars to save.

Although the policy barriers to PFS at the state level remain high in Virginia, there is great opportunity for rapid prototyping of creative approaches at the municipal level. Local level officials, informed by deep knowledge of successful, scalable interventions in their communities and leveraging the myriad of sources of readily available data already under their control, should aggressively develop partnerships with private funders to deploy PFS initiatives. Making PFS a reality at the local level may provide impetus for state level policymakers to remove barriers to this encouraging policy innovation and in turn place the Old Dominion at the forefront of this new and promising movement.



Marland Buckner serves as Co-Founder and Principal of MB² Solutions LLC, a Washington, DC and Richmond, VA based public policy and domestic strategy firm. Prior to this work, Buckner served as Director of Federal Government Affairs for Microsoft Corporation and Legislative Assistant to Senator Charles Schumer (D-NY) as well as Senior Policy Advisor and Chief of Staff to then-Congressman Harold Ford Jr. (D-TN-09).

¹<https://www.thirdsectorcap.org/commonwealth-of-virginia-pay-for-success-sif-cohort-1/>

²<http://myskillsource.org/pdf/SkillSourceReprint.pdf>

³http://www.csh.org/wp-content/uploads/2017/10/VSH-Feasibility-Report-10_8_17.pdf



A NEW SUPPORT FOR PHILANTHROPIC PLACE-BASED INVESTING:

LOCUS Impact Investing

Credit counseling
services delivered
by the Community
Loan Center—Rio
Grande Valley

BY TERI
LOVELACE
AND SYDNEY
ENGLAND

Philanthropic leaders across the country understand that traditional grantmaking is not enough to address complex, persistent community needs such as the scarcity of early childhood education, lack of quality affordable and energy efficient housing, food insecurity, and inequitable access to economic opportunities for communities of color. Increasingly, place-focused foundations seek to complement grantmaking with local investments to create greater impact in their own communities – understanding that better alignment will help them creatively scale community solutions, manage their endowed resources and engage the next generation of prospective donors.

Place-based impact investing is an emerging lens through which to view impact investing strategies. Unlike many “off-the-shelf” Environmental, Social and Governance (ESG) investing products, place-based investments can respond more directly to expressed community need, and what is “investable” can be determined by local stakeholders and market conditions. Local or place-based impact investing brings with it a unique set of obstacles and barriers to investor entry, not the least of which is a lack of local investment products. Where there are local assets without a local marketplace, there is community capital leakage. If capital has no local on-ramp it must be invested outside of the community to generate social or financial returns. More

institutional and high net worth (HNW) individuals are demonstrating growing interest in place-based investing, yet few philanthropic consultants and investment advisors offer solutions for local impact investing barriers.

In 2016, the staff at Virginia Community Capital, a \$333M CDFI loan fund and bank, asked: How can we help unlock even more capital, in even more places? VCC’s leadership grappled with this question for 18 months. Ultimately, VCC decided to serve this developing, underserved market.

VCC designed and launched LOCUS Impact Investing to offer place-based foundations, donor advised funds and HNW individuals access to the ongoing thought partnership and investment support services needed to get socially-motivated capital flowing into communities across the country. LOCUS offers investment advisory services through LOCUS Capital, a B Corp, providing financial due diligence and portfolio administration, as well as impact fund aggregation and management. LOCUS also offers philanthropic consulting services and empowering research to provide foundations with sector-expertise in economic development philanthropy. With offices in Virginia, Nebraska, North Carolina and Washington, D.C., LOCUS is traversing the country to help more place-focused foundations unlock their philanthropic capital and invest locally – in social enterprises, nonprofits and community projects that generate measurable social, environmental, and financial returns in their communities.

One such engagement took members of our team to the heart of Central Texas, where a community foundation was exploring how they might combat the rise of predatory payday lending practices. Waco, Texas is home to 36 payday or car title lenders. In 2015, those lenders collected \$21 million in interest and fees and repossessed 478 cars.¹ The foundation had been approached by nonprofit and government officials about a small community loan fund that was providing interest-capped, employer-based alternatives to payday loans. The loan fund needed additional lending capital to serve more people and to reach financial self-sustainability. The stakeholders originally approached the foundation with a grant request, but given the foundation's existing grant commitments, there simply weren't dollars to give. Undeterred by this setback and unshaken from their commitment to help those living on the economic margins, the foundation's leadership recognized that a window of opportunity for local impact investing had opened. After several internal conversations, the investment committee and board agreed to consider supporting the community loan center with investment dollars, but they were not comfortable "going at it alone." Whether they knew it or not at the time, this foundation was taking one step toward collaborative, place-based investing.

The Urban Institute recently highlighted collaborative place-based impact investing efforts across the country, which offer inspiring examples of diverse stakeholders creatively endeavoring to solve intractable community challenges.² While our client's example may be small compared to the larger-scale initiatives highlighted in the report, their story offers an important example of the power of collaboration.

At the request of the foundation, LOCUS met with the investment committee and the board as well as representatives from four community banks. At times, negotiations between the stakeholders were difficult. LOCUS spent eight months

walking the partners through a collaborative investment structure that satisfied the investors' expectations and proposed terms that the community loan center could meet for repayment. With each conversation, questions were answered, and trust developed among the stakeholders.

After an extensive underwriting review, LOCUS proposed an investment structure that utilized \$1M of collaborative investment capital. With our philanthropic client in mind, we also made technical assistance recommendations not dissimilar to the capacity building grantmaking that the foundation had brought to the nonprofit community for almost 60 years. Through this underwriting, the investment committee, board and community banks were able to see the investment potential despite the risks, and collectively they agreed to move forward so long as the foundation agreed to support the investment with a concurrent technical assistance grant. Since then, the stakeholders have been negotiating the terms of the collaborative impact fund that protects the investors' financial interests and ensures that the borrower will be best situated to succeed with deployment.

There is more to come with this exciting collaborative place-based investment! LOCUS continues to support our foundation partner in Texas along this journey as we move towards finalizing the investment terms, closing the proposed collaborative impact fund and scaling this innovative community problem-solving approach. We hope that this example demonstrates that while there are real obstacles that limit "ease of entry" into the local impact investing space, this work can be done with the assets that you already have, in the communities that you already serve and with the partners that you already know. As foundations become more comfortable embarking on this impact investing journey, LOCUS will be right there to support them.



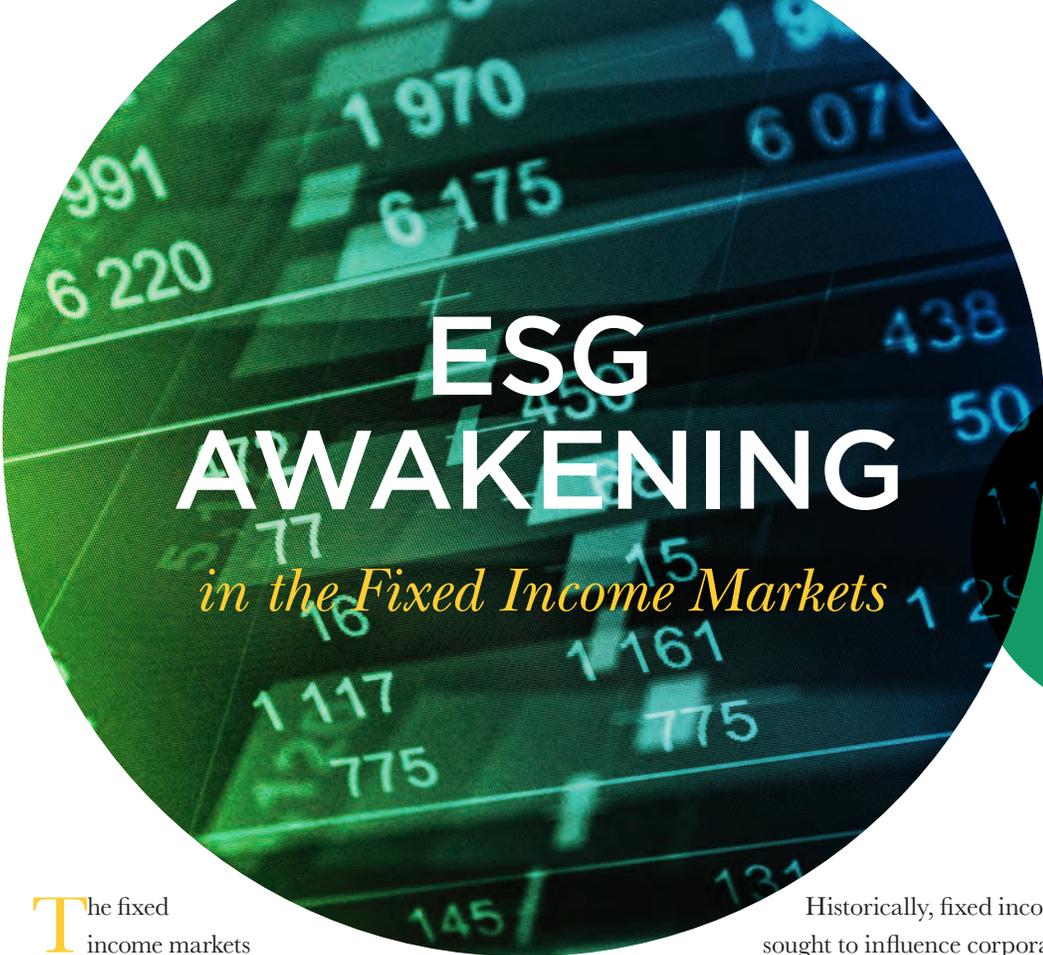
Teri serves as Chief Impact Officer and Senior Vice President for Virginia Community Capital (VCC) and President of VCC's new social enterprise – LOCUS Impact Investing. Prior to joining VCC, Teri served as the Vice President of Philanthropic Services at the \$850 million Community Foundation Serving Richmond and Central Virginia.



Sydney joined LOCUS Impact Investing after working at the Jessie Ball duPont Fund, a \$300 million private foundation located in Jacksonville, Florida. While at the Fund, Sydney oversaw a \$5.5 million program related investment portfolio, a \$300,000 small grants program, and New Markets Tax Credit relationships with four community development lenders.

¹CLC-America. "Payday and Auto Title Loans are Draining Community Resources." <http://files.constantcontact.com/d1b76d8e201/1d16a37d-bac6-46d2-b736-0f0d105ccc67.pdf?ver=1475007197000>

²Ashley, Shena and Ovalle, Joycelyn. May 2018 *Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing*. Washington, DC: Urban Institute. pg 5.



ESG AWAKENING

in the Fixed Income Markets

BY HOWARD
BOS

The fixed income markets have long been the investment community's "forgotten child" when it comes to integrating ESG (Environmental, Social and Governance) criteria in the investment process. This important segment of the capital markets, which provides trillions of dollars in much needed capital to publicly traded corporations around the globe, is awakening to the realization that they can and should apply ESG principles to their investment process.

The UN PRI (Principles for Responsible Investment) has recently published a collaborative document on "ESG Engagement for Fixed Income Investors."¹ In the document PRI states their mission: "We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole." As a UN PRI signatory, Richmond Capital has incorporated ESG thinking into our management policies and investment practices. Institutional investors like Richmond Capital are now realizing the benefits of this ESG commitment in their investment process.

Historically, fixed income asset managers have not sought to influence corporate issuers. Unlike equity investors who have a history of engaging with corporations through proxy voting, bond managers have been less likely to engage these same issuers. Of course, fixed income managers do not vote on corporate proxies and did not believe that they had particular leverage to institute changes within these companies. However, with the increased need of capital for R&D and/or merger activity, fixed income managers are recognizing that they can engage corporate bond issuers to improve important disclosures related to ESG issues. This is an important step in encouraging better corporate behavior and setting the foundation for many companies to include ESG principles in their day-to-day operations.

As part of our engagement process, Richmond Capital has recently contacted over 90 large U.S. corporations seeking additional information on their level of ESG disclosure. We were

**ESG ENGAGEMENT
ALLOWS ISSUERS TO
GARNER A BETTER
UNDERSTANDING
OF INVESTOR'S
EXPECTATIONS.**

PRI 6 Principles

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

pleasantly surprised by the robust responses. In particular, a large telecommunications company contacted us to set up a conference call. The call included this company's treasury department which is responsible for the issuance of their debt which totals in excess of \$115 billion. Our experience points out that issuers of this magnitude are keenly aware and sensitive to their ability to access the capital markets. This company has fairly extensive disclosures on ESG issues but was receptive to our questions specifically regarding governance and social issues. They had recently had a protracted strike of union workers resolved. By engaging with this corporation, we obtained a more holistic view of the long-term credit worthiness of the company. In return, ESG engagement allows issuers to garner a better understanding of investor's expectations.

For most investors, investment performance ranks as their main "report card." Many bond investors have long felt

that incorporating ESG thinking into their investment process hurts performance; however, many studies today have indicated the exact opposite. Some investors rely on third-party providers like MSCI and Sustainalytics for ESG scores and ratings. In 2016, Barclays Capital, using research provided by these two independent services, evaluated how bond portfolios tilted toward higher rated ESG securities performed. Their conclusion was that these "ESG positive" portfolios lead to small but steady outperformance.² This historical research from Barclays effectively debunked the long held notion that incorporating ESG criteria into the investment process leads to underperformance and does not fulfill investor's fiduciary responsibility. Indeed, it can be argued that the additional level of ESG scrutiny provides investors with a more complete profile of corporations and ultimately will lead to better long-term risk adjusted investment decisions and enhanced investors' fiduciary responsibility.

The ESG awakening by bond investors is just beginning here in the United States. As the trend toward active engagement with bond issuers continues, companies will feel the necessity to comprehensively address ESG on an ongoing basis. Ultimately, by allocating capital to those companies that incorporate ESG principles, bond investors are realizing that they can have a broad impact on the business practices of corporations globally.



Howard Bos is President and portfolio manager at Richmond Capital Management. With over 29 years of fixed income experience, Howard joined Richmond Capital Management in 1999.

² *ESG Investing in Credit Markets*, Lev Dynkin, Albert Desclee, Jay Hyman, Simon Polbennikov, November 17, 2106.



The case for

IMPACT THROUGH PUBLIC EQUITIES

BY TIMOTHY
P. DUNN

The world's public equity markets are the largest and most free-flowing pool of capital with over \$80 Trillion of value in the hands of pensions, endowments, foundations, and individuals. The flows in the public equity markets bring essential funding for emerging businesses, reward winners, and hasten the decline of sunset companies and industries.

Large investment institutions (e.g., Fidelity, BlackRock) have been tasked with stewarding assets for or on behalf of individuals and entities around the world. The professional managers of these large pools of money are almost universally rewarded on one simple measure – did they “beat the market” this quarter and/or this year? They typically do not consider the impacts their investment decisions might have on society and our environment because they have not been asked to make such considerations. This unidimensional and short-term perspective is a primary contributor to the capital markets’ systematic failure to account for the impact our economy has on the environment and humanity.

Fortunately, there is a growing, though still small, number of investment firms that are working to truly innovate the analysis and decision-making process used by professional investment managers to incorporate environmental and societal factors. This work is being greatly assisted by the excellent work of non-profits like the Sustainability Accounting Standards Board, CDP (formerly the Carbon Disclosure

Project), and the UN’s Principles for Responsible Investing. Increasingly leading academics are building a body of work that shows the benefit of integrating Environmental, Social, and Governance (ESG) factors into the investment process. Yet, it is estimated that only about \$600 Billion of the \$80 Trillion properly assesses potential impacts of a business on society or the environment before investing in that company.

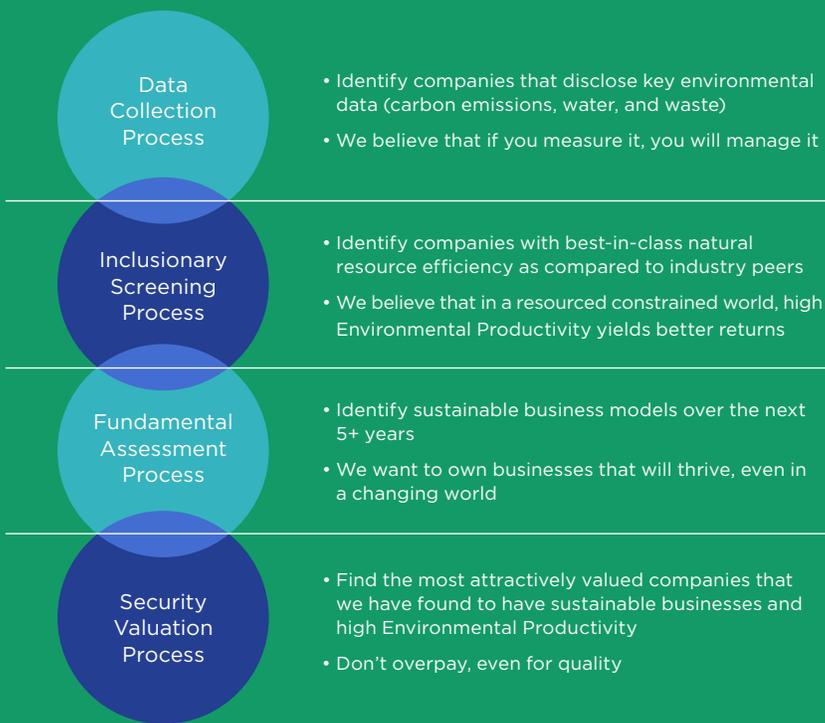
There are also hundreds of large corporations that are on the path to significantly reducing their impact on and use of natural resources. These range from Unilever (a leading global food company) to Microsoft (a global software and data center services company). 129 major companies (including Apple and Alphabet) have pledged to be using 100% renewable energy by 2020. 106 companies (including General Mills and L’Oreal) have already set science-based targets for corporate Greenhouse Gas Emissions that would support global goals to limit the impact of climate change. These companies are at the vanguard of doing the right thing for their investors, customers, employees, and society writ-large. Though currently, most investment firms fail to reward such thoughtful long-term efforts.

Our advocacy investment firm seeks to demonstrate that businesses which are working to better manage their use and impact on our planet’s finite natural resources (clean air, clean water, raw materials, forests, and soil) will generate better financial returns and be better long-term investments. We

deploy our Environmental Productivity™ analysis to identify the most natural resource efficient companies in every sector of the economy. Further we test business models to identify the most fundamentally sustainable businesses for the 21st century. We consider this a needed improvement on existing active equity management.

Our investment process is built with deep understanding of traditional fundamental analysis and the value of growing datasets on environmental, social, and governance factors reported by companies. It begins with an inclusionary screening based on natural resource efficiency, moves on to deep fundamental research, and ends with security valuation.

Terra Alpha's Investment Process



We also track specific work companies are doing to drive their long-term success through innovation. A few examples of leaders in corporate environmental productivity are provided below.

ADIDAS: The German-based sporting goods and apparel company is now selling three new editions of its UltraBoost shoe, all made from plastic debris found in the ocean. Each pair of shoes reuses 11 plastic bottles, on average, and feature laces, heel lining and sock liner covers that are made from

recycled materials. Adidas has a goal to create one million pairs of these shoes. With a retail price of \$200 per pair, UltraBoosts are on par with higher-end athletic shoes. This initiative is not only good for the planet, but provides a meaningful contribution to the company's revenue figure on an annual basis. Initiatives such as these are microcosms of our investment and advocacy philosophies at Terra Alpha.

XYLEM: The U.S.-based water technology company is a true global leader in its operations and reporting. One of the standouts in how the company incorporates EP processes and technologies is an innovative energy, emissions, and water-saving heat pump system installed at one of its largest manufacturing facilities. The Emmaboda plant makes 2/3 of all Flygt pumps, and has an innovative heat recovery project (starting in 2009) that reduced the plant's energy use by 75%; this alone is expected to drive a 20% reduction in company-wide water use by 2019.

The success of Terra Alpha's investment thesis will not only provide our investors with a better way to invest their assets, it will help drive change in how all investors consider the use of environmental and societal impacts in their own decision making.

The public equities market is a powerful force that impacts all of society. Left unchecked, it will continue to drive our economy in the wrong direction. Asset owners must ask more of those they have entrusted to manage their hard earned assets. A shift in the decision-making process by investment professionals to incorporate environmental and societal impacts will not only drive better risk-adjusted returns for asset owners, it will help shift how our economy functions so that it delivers a better outcome for society.



Timothy P. Dunn, CFA – Founder and Chief Investment Officer of Terra Alpha
 Tim has over 30 years of professional investment experience. He spent 19 years at Capital Research/American Funds as one of the lead portfolio managers of The Growth Fund of America, Capital World Growth and Income Fund, and EuroPacific Growth Fund. He holds a BA in International Relations from The College of William and Mary and a MBA in Finance from Northeastern University.

Many
THANKS

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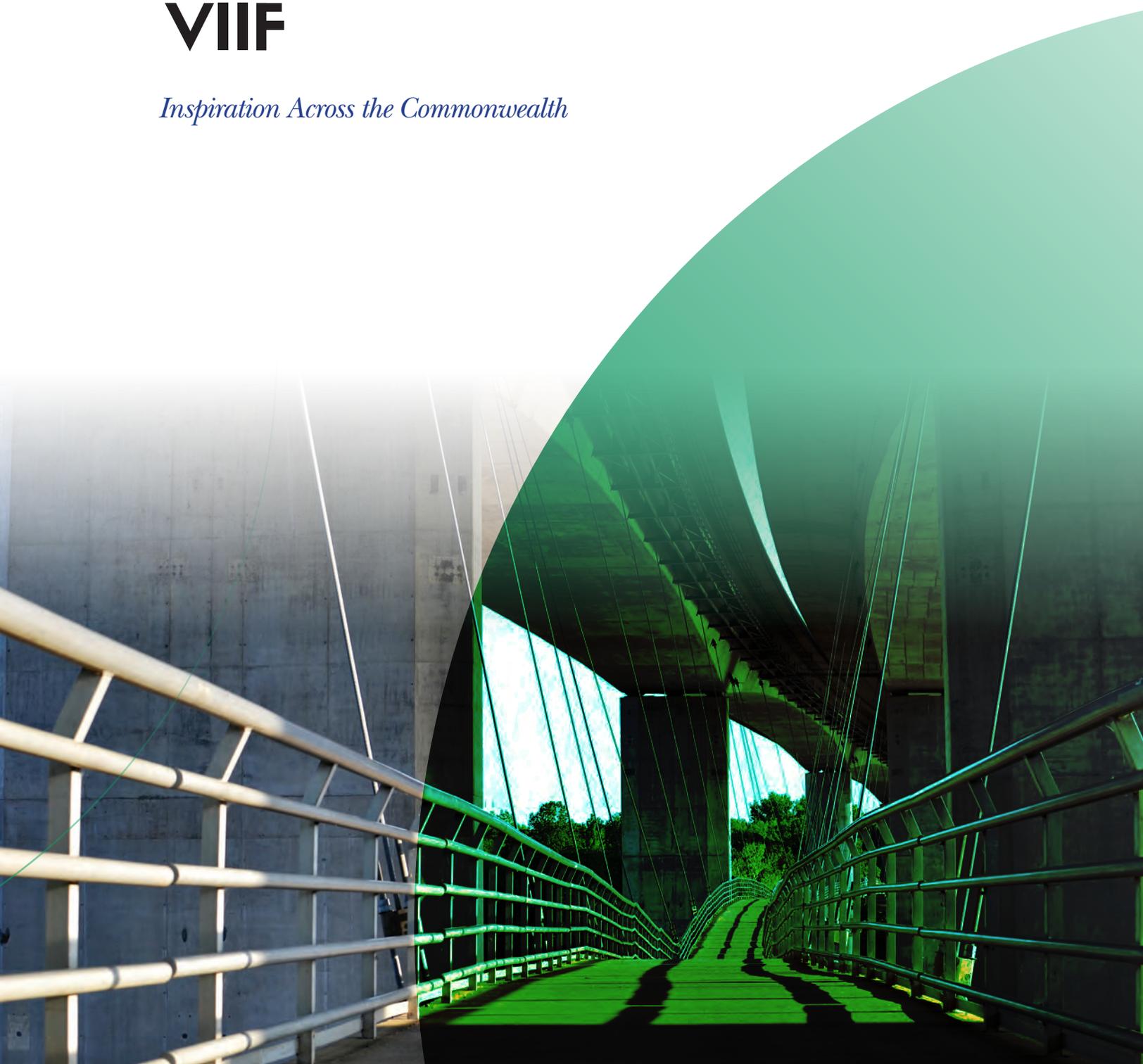
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