EXPANDING THE MARKET FOR Community Investment IN THE UNITED STATES
July 2013

We are so glad you are reading this report, and we hope you will play a role either in expanding investment in community development finance or in expanding the array of investor opportunities in the community development space.

The US SIF Foundation, the Initiative for Responsible Investment, and the Milken Institute are delighted to have had the opportunity over the past 18 months to explore strategies to attract new investors into community-based investing. We want to thank the Ford Foundation, and particularly Lisa Davis, program officer in the Metropolitan Opportunity initiative, for their support of this work and their commitment to expanding the community development field.

As community development finance continues to evolve, it will be critical for both practitioners and investors to keep addressing core challenges and opportunities that affect the ability and interest of investors to commit to this space. We all must continue to address any misinformation among investors about community investment and to drive the development of products across all asset classes.

We also want to thank all those who contributed their thoughtful insights and feedback throughout the development of this report. These individuals included Giselle Leung, Global Impact Investing Network; Justin Conway, Calvert Social Investments Foundation; Georgette Frazer, Community Investment Consultant; Mark Regier, Everence; Ellen Golden, Coastal Enterprises, Inc. of Maine; Rosalie Sheehy Cates, Community Investment Consultant, and Paige Chapel, CARS, Inc.

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We thank you for your interest.

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EXECUTIVE SUMMARY

Community investing or community development finance has a history of several decades in the United States. Today, the field is at a moment of transition. The financial crisis and subsequent recession reduced investment opportunities and created a heightened perception of risk for community investors. However, the crisis also awakened interest in new investment approaches that have clear collateral benefits to society. The growing interest in “impact investing” both aligns with community investment goals and has the potential to expand the range of sectors and investment products that deliver community development outcomes. Our focus in this project and report was to capture this moment of transition and to explore what factors are at work that could support an increase of investment in community development, as well as those factors that might be limiting investor understanding of or interest in this space. The report focuses on four investor groups: high-net worth individuals and family offices; philanthropic endowments; institutional investors, especially pension funds; and retail investors.

We look at community investing opportunities across all asset classes including cash-equivalent instruments, fixed income, and public and private equity. We distinguish between market-rate strategies consistent with conventional portfolio management practices and concessionary investment strategies that prioritize social and environmental impacts over return. Our engagement with current and potential community investors has convinced us that bringing new actors into the field requires understanding both their financial and social/environmental return expectations and developing messages and products that speak to these expectations.

Our project found that some key potential barriers include:

- Different investor types have different return expectations, making it impossible to market a “one size fits all” community investing product;
- Investors lack knowledge about community-oriented investment products; and
- There is a shortage of community investment products that have the scale appropriate for larger institutional investors.

Many of the self-defined and newer “impact investors” lack awareness that existing community investing products have significant social impact. We also found that the four investor types we studied are likely to differ in their community investment approaches because they:

- Operate at different scales and on different time horizons from one another;
- Are attracted to community investment for different reasons, and respond to its appeal in different ways;
- Carry different risk and return expectations;
- Use different channels through which they identify and invest in community investment products; and
- Are subject to different investment regulations and conventions.
Yet, we also found that there are multiple opportunities for taking advantage of potential interest in community investment. A short list includes the following:

- The term “impact investing” has attracted substantial interest from high net worth individuals and family offices;
- A focus on place-based investing or sector approaches, such as healthcare, is attracting new capital; and
- There is growing interest by foundations in mission investing—supplementing their grant-making by using a portion of their endowment for loans and investments that support their charitable missions.

Increasing investor interest will require the right approaches to investor engagement and product construction.
INTRODUCTION

This paper reflects key findings from work supported by the Ford Foundation and carried out by the US SIF Foundation, the Initiative for Responsible Investment at the Hauser Center for Nonprofit Organizations at Harvard University, and the Milken Institute in exploring potential new sources of capital for community investing.

Over the past 18 months we have conducted a range of formal and informal interviews, convened community investment leaders in small meetings, and engaged with institutional investors, consultants, wealth managers, fund managers, policy makers, and related stakeholders. Overall we held conversations with representatives from over a dozen community development investment vehicles and over 30 current and potential community investors. The latter group included representatives of foundations, pension funds, wealth management firms, insurance companies, and an array of asset managers, while the former included community development financial institutions (CDFIs), real estate development firms, funds of funds, and community development corporations.

Our ultimate goal was to identify how the field of community investment may expand and engage its existing and potential investor base to best deliver social and environmental benefits to marginalized communities. While this paper will refer largely to social benefits, we include in the classification of social attributes those that would be considered environmental, such as green building, transit-oriented development, and green job creation.

Community Investment as a Dynamic Field

The definition of a “community investment” is constantly evolving. While traditional activities such as community development banking and concessionary loans remain central to the field, practitioners have expanded the range of community investment products across asset classes and risk/return profiles and, in the process, have made community investment more accessible to new investors and new financing approaches.

Community investing is historically known to investors through community development banks, credit unions, and loan and venture capital funds, often registered with the federal government as CDFIs. In recent years, interest has expanded to investments across a wider range of asset classes and into new sectors, driven by changing needs in marginalized communities as well as changing ideas about how to better serve, and measure benefits for, people and places. Revitalized interest in place-based investments has similarly helped motivate interest in the field. This paper focuses on the opportunities that increased interest may create for channeling new sources of capital streams into community investments.

The recent joint publication from the Federal Reserve Bank of San Francisco and the Low Income Investment Fund, Investing in What Works for America’s Communities: Essays on People, Place, & Purpose, lays out a range of ways in which practitioners are developing new goals and methods for community investment, including an expanded focus on sectors such as health, healthy and walkable communities, fresh food provision, and rural economic development. Traditional channels for community investment remain fundamental, but they are increasingly being linked to broader or more holistic social outcomes. As contributing editor Ellen Seidman notes, on p. 354:
Over the past decade, amid bubble and bust, community development has undergone a subtle but important transformation, broadening its outlook from a primary focus on investment in real estate...to encompass what goes on in those places (the quality of services); the total physical and social structure of the community (including issues such as transportation and public safety); and the physical, financial, and mental health of the people who live in those communities.

The field as a whole exhibits specific characteristics that make it possible to talk about “community investing” as a unified topic. We can identify three key elements that together constitute a community investment:

1) A focus on marginalized areas or communities that conventional market activity does not reach (in practice, low-income neighborhoods or regions, communities of color, and underserved geographic regions such as rural communities);

2) A focus on enabling the delivery of explicit social benefits (affordable housing, economic development, provision of needed goods and services at affordable rates, healthier outcomes) to those areas or communities; and

3) A financial product available for investment that can be managed in terms of risk and return.

This relatively broad approach comprises a wide variety of investment vehicles and social outcomes ranging from concessionary loans and equity investments in nonprofit community groups to market-rate investments in for-profit real estate development. The level and focus of community benefits created by these investments will vary depending upon asset class, geographical region, and community need. Despite the multitude of contextual factors that exist, all community investments share these three core characteristics.

The ultimate test of their value as community investments is whether they improve the lives of people or the health and resiliency of places that are currently underserved by conventional financial market activity.

The Challenge of Attracting New Sources of Capital

The focus of this work is on potential sources of capital for community investment that have yet to be fully engaged. The financial crisis and subsequent recession reduced investment opportunities and created a heightened perception of risk for community investors and the financial community more broadly. Many forms of community investment are closely tied to public support and tax expenditures that face uncertain futures in a period of constrained public resources. Longer term changes in the nature of the banking industry also play a role in prompting rethinking of community investments. These constraints have in many ways acted as a motivating force for the field to look elsewhere for investable capital.

Pioneers in the field from the sustainable investment and faith-based communities have steadily increased their investments directed towards creating a positive social impact. Foundations, which have long supported community investment with much needed grant and concessionary investments, are increasingly interested in mission investing—using a portion of their endowment principal to support their charitable missions. The coining of the term “impact investing,” defined by the Rockefeller Foundation as an investment made with “the intention to generate measurable social and environmental impact alongside a financial return,” has attracted substantial interest from high net worth individuals and family offices. Finally, renewed interest in place-based investing from
larger institutional investors, as well as retail and philanthropic investors, offers the potential for the widening of community investments across asset classes. There is room for the field to grow.

Our engagement with practitioners and advocates has helped frame this topic as a question of how to transform latent demand into productive engagement. Not every investor is interested in community investment, and not every community investment product is appropriate for every investor. Our conversations revealed the difficulty of taking increasing investor interest and translating it into investor commitments.

Some of the barriers mentioned by practitioners are:

1) **VARIANCE AMONG INVESTOR GROUPS**: Approaches to bringing in new capital to community investment may suffer if they fail to differentiate among investors. Investors vary in the risk/return profiles they seek, their specific social goals, their interest in developing new markets or working through established channels, and therefore in their appetites for different kinds of products. Just as importantly, the investment conventions they adopt, and their unique relationships to advisors, managers, and beneficiaries, require different forms of engagement. Differentiating among such investor types will facilitate better strategies.

2) **LACK OF KNOWLEDGE ABOUT PRODUCTS**: The consensus across the range of investors and investees we interviewed is that investors lack knowledge about the range of products that may match their needs. They also may believe that community investing is unavoidably (rather than sometimes) concessionary. Access to better information about options in community investing might bring in investors who currently do not see products that match their unique needs, and reduce searching and other transaction costs for those already engaged.

3) **LACK OF SCALED PRODUCTS**: Community investment can be relatively small and idiosyncratic, but larger investors need products at scale, and even smaller investors typically work through advisors and managers who favor scale. The shortage of scaled products constrains capital flows to community investing vehicles.

4) **DISCONNECT BETWEEN PERCEPTIONS OF COMMUNITY AND IMPACT INVESTING**: The growth in interest among high net worth investors, family offices, foundations, and others in impact investing has sometimes focused on investment in emerging markets and “innovative” products, at the expense of the more established community investment industry in the United States. Better awareness of the high impact potential of domestic community investment products can help engage these investors.

5) **PERCEPTION THAT THE MARKET IS ARCANE**: The relative unfamiliarity of investment professionals with community investment and the lack, to some extent, of standardized data on community investments lead many investors to view it as a highly specialized field. As a result, they assume that it is an investment strategy that is difficult to employ.

6) **LACK OF INVESTOR ENGAGEMENT ON PARTICULAR ISSUES**: Some potential investors are interested less in community investing broadly than in particular sectors or issues such as health care, the foreclosure crisis, healthy communities, rural development, environmental sustainability, and so on. Tailored approaches for these specific investor interests might be more successful than generalized appeals for community investment.

In the following sections, we outline strategies to address core issues and opportunities in order to catalyze the flow of capital from new sources into community investment.
SECTION ONE: Investor Sources for Community Investment

The potential demand for community investment comes from different types of investors, with different legal, cultural, and practical constraints that govern their investment strategies and practices. The investors in each class need to have a clear sense of the accessible products in which they can invest and a general belief in the value of incorporating social and environmental benefits into investment portfolios. Indeed, a common refrain from practitioners we engaged with over the past year and a half is that the community investing field needs to more actively differentiate among investors based on their needs and orientation, as well as what is available through their preferred or required investment platforms in different asset classes.

Institutional asset owners such as pension funds and endowments, private and community foundations and other endowments, high net worth individuals and family offices, and retail investors will each respond differently to community investment.

Investor types may differ in their community investment approach because they:

• Operate at different scales and on different time horizons from one another;
• Are attracted to community investment for different reasons, and respond to its appeal in different ways;
• Carry different risk and return expectations;
• Use different channels through which they identify and invest in community investment products; and
• Are subject to different investment regulations and conventions.

This section focuses on four investor groups:

• High-net worth individuals and family offices;
• Donor-advised funds and community foundations;
• Institutional investors, particularly pension funds; and
• Retail investors.

Our recent work suggests that these investor types have the potential to increase their participation in community investment, but face a number of real or perceived barriers.

In this chapter, we offer a snapshot of the four groups to highlight the potential new capital for community investment and to illustrate the advantages of differentiating among investor types.

(This report does not focus on the several vital investor groups already active in community investing, including religious institutions, the sustainable and responsible investment community, private foundations, and banks and insurance companies.)
High Net Worth Investors and Family Offices

This project and others like it have found that high net worth (HNW) and family office investors constitute the investor group most likely to increase its community investments for several overlapping reasons:

- They are demonstrating a substantial uptick in interest in and enthusiasm for impact investment, as evidenced by requests for information from wealth managers, participation in conferences, and other efforts to engage;
- The “next generation” of high net worth families, those ranging from 20 to 40 years of age, is especially interested in impact investing;
- The potential flexibility in terms of benchmark returns and openness to new investment approaches of HNW and family office investors is relatively higher than with institutional investors;
- Place-based and issue-based investment is potentially attractive as an additional tool to build on philanthropic activity; and
- There exists potential willingness to accept below- or near-market returns in exchange for identifiable social and environmental benefits.

From the perspective of community investment, HNW individuals and family offices offer potential scale and flexibility of capital. Wealth management offices have begun to incorporate more community investment opportunities into their portfolio construction for clients. They are beginning to take the time to educate clients on the significance of including community development investments in their portfolios. For interested clients, firms can recommend what portion of the portfolio to designate for community investing purposes after appropriately assessing the client’s level of risk tolerance, expected rate of return, and time horizon. The community investment component can then be personalized based on the client’s interests in theme, region, and impact.

As part of its overall advisory practice, the SRI Wealth Management Group at RBC Wealth Management provides analysis and recommendations to clients as to whether it is appropriate to include community investments in their portfolios. For interested clients, the team recommends a portion of the portfolio to allocate to community investing purposes after assessing the client’s risk tolerance, expected rate of return, and time horizon. The community investment component can also be specified based on the client’s regional interests.

Veris Wealth Partners, a national sustainable wealth management firm, has developed an Approved List of community investment products with a range of geographic foci, impact areas, risks, and rates of return. Veris sees community investments and CDFIs as low risk and high impact aspects of an investment portfolio. The centralized Approved List, combined with CARS (CDFI Assessment and Rating System) analysis, has reduced the resources required to perform due diligence and allows for customization in both regional and impact area.
• Lack of knowledge among wealth managers, and their clients, of the available opportunities for community investment;

• Belief that community investment is a strategy for banks, insurance companies, or other investors, and somehow lacks the “excitement” attached to other forms of impact investment;

• Skepticism about financial performance from wealth managers and their clients due to the unconventional nature of many community investment products and strategies;

• Lack of community investment products at sufficient scale and that diversify portfolios enough to justify the opportunity costs for wealth managers to pursue these products for their clients; and

• A general lack of incentives for wealth managers to adopt community investment as a particular strategy.

These barriers present a challenge for community investment advocates to increase their engagement with this investor pool.

Strategies for Engaging HNW and Family Office Investors

Practitioners point to a number of avenues for increased investment from HNW and family office investors. Some suggested tools include:

• An advocacy campaign to raise the profile of community investing that focuses on social impact, an approach that resonates with this demographic;

• Better communication with wealth managers and investors about the range of opportunities in the field in order to reduce their search costs for appropriate products and to mitigate their sense that community investment products are idiosyncratic and unconventional;

• Direct engagement between wealth managers and community organization leaders on the best methods for product development that take advantage of the scale and reach of large wealth management platforms;

• Inviting HNW individuals and family offices to participate in community investment convenings and conferences; and

• Access to and creation of reliable data sources to help these investors and their advisors gain greater comfort about both the financial performance and social impact of these investment opportunities.

These strategies are mutually reinforcing and none of them alone is likely to engage these investors at scale. They apply to both market-rate and concessionary investment strategies.

The willingness of these investors to choose below market-rate strategies depends heavily on their engagement on social issues, and the willingness and capacity of their wealth managers to integrate below-market strategies into their due diligence processes and product offerings. When well designed, below-market rate investments can deliver greater social and environmental impact than may be possible through market-rate investment opportunities. HNW and family office investors are uniquely positioned to prioritize their investments in this way.
With regard to market-rate strategies, HNW and family office investors are perceived to be more agile in supporting new strategies, quicker to act than institutional investors, and in some circumstances more willing to shoulder the risk of being pioneers in funds with relatively short track records.

Donor-Advised Funds and Community Foundations

“Philanthropic investors” are typically associated with tax-exempt charitable endowments including donor-advised funds, community foundations, family foundations, and private (institutional) foundations. Philanthropic investors work at different scales: the largest private foundations have their own investment offices; smaller funds with fewer resources may outsource their investment management to advisors; and donor-advised funds outsource their management and office functions to specialist institutions including community foundations.

What unites these investors is the charitable purpose of their endowments. In theory, this should make them open to mission investing as a tool to further their organizational missions, though in practice the conventions of investment strategy and management have kept most foundations from taking up mission investing.

Private foundations have long played a vital role in supporting community investment. They have made intermediary grants to support community investment lending, engaged in program-related investing in community development finance institutions, and invested at market rate in equity and debt vehicles that provide capital to marginalized communities. As there are multiple and ongoing efforts to engage foundations on mission investing, we do not concentrate on them in this paper.

This paper instead focuses on two related areas where our work suggests latent demand for community investment opportunities: donor-advised funds and community foundations.

Donor-Advised Funds

A donor-advised fund is a private fund administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family, or individual. They are a rapidly growing sector of philanthropic capital. These funds, though managed by public charities, including charitable arms of major investment firms, share many of the characteristics of private wealth management funds, as living donors keep

The Greater Cincinnati Foundation (GCF) has a well-established track record of community investments. GCF invests its charitable assets and offers select community investment projects for its donor-advised funds’ investments. Past investments have included the Community Healthcare Financing Fund, the Greater Cincinnati Energy Alliance, and investments in the Cincinnati Center City Development Corporation (among many others).

The Council on Foundations offers a comprehensive site map on community foundations. It partnered with Mission Investors Exchange to create a resource for community foundations to meet their increased interest in mission investing.
Donor-advised funds:

- Are substantial pools of capital that are relatively untapped for community investment;
- Have begun to receive attention as potential impact investors, including increased interest from donors themselves; and
- Might offer flexibility in terms of their risk and return profile.

However, they face similar challenges as those for HNW individuals and family offices:

- Funds are managed by institutions that may be unfamiliar with community investing, and for which building community investment capacity creates opportunity costs;
- Donors may have limited data on opportunities in the field, or may not see community investment as a relevant area to explore; and
- Aggregating substantial capital across funds creates significant transaction costs.

Strategies for Engaging Donor-Advised Funds

Community investment practitioners suggest a need for:

- More robust outreach through channels familiar to donors and their managers, such as invitations to participate in conferences focusing on community investment;
- Motivating wealth managers on community investing as a tool for donor engagement;
- Tools to reduce search and due diligence costs for investments; and
- Scaled products that meet the needs for institutions that manage multiple donor-advised portfolios.

There is reason to approach donor-advised funds differently from other investors, even though they invest through similar channels. The charitable purpose of these funds suggests a greater potential role for social issues to be considered in investment decision-making. However, given the complex nature of these funds’ operations, investment products that do not take the unique needs of donor-advised fund managers into account will not get traction even if they are a feasible option for donors.
Community Foundations

Community foundations combine attributes of donor-advised funds (typically their largest source of money under management), endowments, and annual charitable giving campaigns. Community foundations are instruments of civil society designed to pool donations into a coordinated investment and grant making facility dedicated primarily to the social improvement of a given place.

A distinguishing characteristic of community foundations is their place-based focus. Community foundations thus offer exceptional opportunities to link donors’ affective ties to a particular place to investment vehicles that support social benefits.

Although a handful of community foundations have been pioneers in below-market and market-rate community investment, a growing number are paying attention to emerging impact investment. This trend offers real potential to channel new sources of capital to the community investing field.

In addition to the opportunities and challenges for donor-advised funds generally, community foundations:

• Concentrate on targeted areas that would benefit from community investment;
• May see community investment as a platform for donor engagement; and
• Can incorporate community investment as a part of their role as community leaders, which they see as important to their mission and success in the community.

They face real limitations for engaging in community investment, as:

• The scope of their geographic focus may substantially limit investment opportunities; and
• Their staff does not typically have investment experience, and their investment committees are not usually familiar with community investment.

Strategies for Engaging Community Foundations

Given the surge in interest in community investing from community foundations, practitioners suggest there is room for:

• Building shared education and capacity assistance platforms for community foundations; and
• Closer collaborations between community investors, community foundations, and local or regional leaders in building investable opportunities.

Strategically, engaging community foundations is also important for the influential role they can play from their position as community leaders.

Institutional Asset Owners

While there are numerous institutional asset owners involved in community investment, for the purpose of this report we focus on pension funds due to their place-based nature and recent community investments made by some of the largest pension funds in the United States. Efforts to seek new capital for sustainable and responsible investment, broadly construed, often turn to
pension funds, which are assumed to be a powerful yet untapped source for potential large scale community investments.

In the wake of the financial crisis, some pension funds have:

- Revisited the area of “economically targeted investments”;
- Participated in collaborative efforts to explore private infrastructure investment that may in part focus on community development benefits; and
- Generally sought ways to contribute to what they refer to as “the real economy.”

In the view of community investment advocates, these funds offer the potential for large scale interventions, particularly in real estate and infrastructure, that could contribute to community development goals.

But for community investing products to attract capital from pension funds, they need to meet several conditions. Pension funds invest:

- Exclusively at market rates of return;
- At large scale;
- Through conventional consultant and manager channels that may be unfamiliar with or skeptical of community investment strategies and goals; and
- Within legal and political contexts that may constrain their abilities to pursue community investment goals.

As a result, effort is necessary to build socially beneficial outcomes into investment products that meet pension funds’ portfolio requirements. Equally important, pension funds must be convinced, as much at the board as the staff level, that there are credible community investment products that fit into their portfolios.

Strategies for Engaging Pension Funds on Community Investment

Despite the barriers described above, there are dozens of active, targeted investment programs by pension funds in the United States that may lay the groundwork for community investments as we have defined them. These include targeted investments in underserved areas, investments designed to create jobs for underserved communities, programs for lending to small and

Impact at Scale, a report published jointly by Insight at Pacific Community Ventures and the Initiative for Responsible Investment, provides a list of economically targeted investments (ETIs) in its Appendix D.

The California Public Employees Retirement System (CalPERS), one of the largest investment funds in the world, has a long history of investing in California companies and projects. In Supporting Economic Opportunity in California, released in 2011, it explains its continued community investments across asset classes. CalPERS noted the positive impact its investments have had on job creation, infrastructure development, and business creation in California, all while maintaining competitive rates of return and providing for beneficiaries, thus providing a strong example of the potentially catalytic role pension funds can play in community investment.
women- and minority-owned businesses, and support for local and community development banks.

Practitioners point to a number of strategies for expanding pension fund community investments, such as:

- Development and dissemination of best practice models for targeted investment programs;
- Encouraging pension funds to incorporate environmental, social, and governmental (ESG) criteria into fund manager selection processes across asset classes; and
- Working with public sector partners and/or other funds to develop investable products with community investment outcomes.

These strategies are mutually reinforcing by building internal capacity at funds to create sound, targeted investment strategies, and by using their size and long-term time horizons to help shape investable products through which they can realize community development goals.

Our engagement with pension funds over the past year suggests that this is a good time to work with them on this topic, though the launch period will likely be lengthy. The financial crisis has opened the door to new investment approaches, increased support within funds for strategies that have clear collateral benefits, and perhaps most importantly, motivated public sector officials to explore ways to collaborate with pension funds on investments that have specified social benefits.

**Retail Investors**

While retail investors individually are smaller in scale than the investor types discussed above, aggregated retail investment capital can play an important role when properly structured into certain investments. Retail investors also play an important symbolic role, in that they help to normalize community investment as an investment practice that can be exercised by investors of all classes.

Products for retail investors will most likely come in the traditional asset classes of cash and cash alternatives, fixed income, and public equities, as alternative investments often require substantially more capital. From the community investing perspective, retail investors would ideally aggregate capital through products that are relatively easy to manage and market and on terms flexible enough

The West Coast Infrastructure Exchange seeks alternative financing methods to develop needed infrastructure while creating jobs and investment opportunities for California, Oregon, Washington, and British Columbia. This fund offers a unique opportunity for pension fund involvement.

The Calvert Foundation has pioneered efforts in fixed income investment products, notably with its Women Investing in Women (WIN-WIN) initiative. Taking a page from a World Bank study that emphasizes that economic growth for women has a multiplier effect, WIN-WIN offers fixed income investments that focus on the development of female entrepreneurs. Investments have been made in organizations that provide health care and child care to low-income women, women-run nonprofit businesses that have missions to serve other women, loan funds that invest in women’s entrepreneurship and small businesses, and women-oriented cooperatives. Investments are made via targeted Community Investment Notes issued by Calvert Foundation and offered by MicroPlace Inc. Impact notes of this nature are particularly important for their capacity to engage investors of vastly different portfolio sizes. Low buy-in amounts and fixed rates of return make fixed income investments of this nature a viable option for retail investors.
to be useful for community development. On the market-rate side, bond funds that purchase public debt targeted to underserved communities have been included in many responsible investment firms’ offerings. On the below-market side, community investment loan funds in particular have found ways to offer participation, through impact notes and other products, in targeted investment funds that use concessionary capital from retail investors to generate social impact.

Despite this range of existing opportunities, retail investors still face some of the following challenges:

- Product offerings for retail investors are clustered in the cash and fixed-income asset classes and even here, some products, such as CDFI loan funds, have high buy-in amounts that dissuade retail investors;
- The lack of long-established investment return profiles in many products may discourage small-scale investors with less flexible capital;
- Most retail investors lack access to advisors who are knowledgeable about community investment opportunities; and
- The lack of products with short-term time frames for return discourages retail investors who prefer to hold more liquid assets.

Strategies for Engaging Retail Investors

In light of these challenges, strategies to attract additional retail investors include:

- Continuing to push for expansion in availability of retail products, including within broker-dealers and registered investment advisor firms;
- Compiling accurate data on risk/return profiles and products and making it readily available;
- Greater communication and public relations efforts that clarify community investment as an investment with impact; and
- Engaging retail investors on community issues that directly affect them—e.g., public transit lines, green space, or healthcare clinics.

Ultimately, individuals may feel they have a stake in these investments because they live in the communities and share the responsibility of maintaining a viable and sustainable living space. Many may see community investment as a natural extension of their ties to specific places and another outlet for community engagement, placing these retail investors in an influential position for expanding community investments.
SECTION TWO: The Range of Community Investment Products Across Asset Classes

A common refrain from potential community investors is that community investment products are in short supply. However, our work suggests that one potential barrier in this field is lack of exposure to and understanding of the range of potential community investment products available.

One simple near-term strategy for attracting capital to community investment is to offer a clear account of the different strategies and products offered. This section maps the general range of products across asset classes, rather than listing available products comprehensively. We also distinguish between market-rate strategies consistent with conventional portfolio management practices and concessionary investment strategies that prioritize social impact over return. Our engagement with investors has convinced us that clearly defined financial and social return expectations are an important part of bringing new actors into the field.

Cash and Cash Equivalents

There is a long-established tradition in the United States of local and community banking that focuses on serving marginalized communities by offering access to financial services and loans for housing, commercial real estate, and small business development. Financial institutions such as self-defined community investment banks and credit unions, federally designated CDFIs, microfinance institutions, and mainstream banks working in marginalized communities offer a range of products in the cash and cash equivalent asset class. Investments in this asset class are available to all investors, from retail to the largest institutional investors.

Investors can identify community investment depository institutions in a variety of ways. The existing federally defined category of CDFIs consists of banks, credit unions, and venture capital and loan funds. Placing deposits in community development banks and credit unions is one method for incorporating community investment into a portfolio. Investment in banking institutions that support community development is typically distinguished from traditional banking that is not active in underserved communities and predatory lending that takes advantage of power differentials to exploit marginalized communities.

One measure of performance, pioneered by National Community Investment Fund, assesses banks by the extent to which they accept deposits...
from (and therefore have branches in) underserved communities and by the extent to which they lend to these communities.

A number of depositories are registered as CDFIs, meaning they meet specific federal guidelines regarding their service to underserved communities. Nonetheless, they also operate similarly to their more traditional or commercial counterparts by offering a range of standard banking services. CDFIs exist in both urban and rural areas, and may have lending practices that target particular sectors such as affordable housing, educational facilities, health, and sustainable energy.

**Identifying Community Investment Opportunities in Cash**

Strategies for investment in cash and cash equivalents include:

- **Operating accounts in banks or credit unions with community development missions.** These are especially prized by investees because they help support durable relationships between community banks and clients. Investors can choose where to open accounts depending on the following criteria for the banks and credit unions they review:
  - The number of clients from underserved communities;
  - Whether they have branches in underserved communities, providing both employment and ease of transactions;
  - Whether they provide financial services and fair pricing to underserved communities;
  - Whether they make active efforts at community engagement, including financial education for low-income clients; and
  - Whether they have targeted lending strategies for social services such as community health clinics, child care services, transitional housing and homeless shelters, and other important public needs.

- **Deposits, including savings accounts, certificates of deposit (CDs), and money market funds.** Deposits can target high impact institutions, and support lending to underserved communities. Through the Certificate of Deposit Account Registry Service (CDARS) program, investor deposits are insured up to $50 million by the FDIC and can earn one interest rate per maturity, and receive one regular statement. One can also invest in CDs at below-market rates to support particular forms of community investment lending. Investors in this case would be opting for below market-rate returns to give priority to social impact over financial

There are multiple associations that support community investment activity through targeted and specific activities. These include:

- **CDFI Coalition**
- **Community Development Bankers Association**
- **National Federation of Community Development Credit Unions (NF CDCU)**
- **Opportunity Finance Network (OFN)**
- **US SIF: The Forum for Sustainable and Responsible Investment**

**Self-Help** is a community development lender, credit union, and real estate developer that works with individuals, organizations, and communities traditionally underserved by conventional markets. It offers federally insured socially responsible deposit accounts with competitive rates of return that support high-impact community economic development in low-income neighborhoods. In California, specifically, it has merged with seven credit unions that serve lower-income populations, illustrating a commitment to working with existing community organizations.
return, although the two are not mutually exclusive.

- **Engagement with banking institutions.**
  Investors can use their working relationships with their banks—local, regional, or national—to encourage community investment lending and increased access to those institutions by marginalized communities. There are many engagement strategies that can be utilized, including deposits that are tied to lending in a specific community or for a specific purpose.

Cash investments for community investing are frequently the easiest starting point for new community investors due to the relative ease of identifying investment opportunities, low cost of entry, low risk nature of deposits, and established social and financial track records and measurements.

**Fixed Income**

Fixed income investments, including bonds and other debt instruments, can be targeted to a variety of community investment projects. In the United States, fixed income products have focused on such issues as affordable housing development, aid for low-income household mortgages, business development in low-income communities, nonprofit lending and social service provision, urban regeneration projects, and debt issues to support public goods and infrastructure development.

These investments come in a variety of forms. Many are public debt instruments that target specific places or sectors. These can include municipal bonds that support education or public infrastructure, bonds tied to place-based redevelopment projects, or federal loans that support small business development or home

**Southern Bancorp** is a well-established CDFI with a social mission focusing on development and investment in rural communities throughout the United States, with a particular emphasis on revitalizing rural communities in Arkansas and Mississippi. Operating as a community development bank holding company, it offers both personal and business credit cards, personal checking, savings, and money market accounts, as well as a range of investment products that deliver capital to developing urban and rural areas.

Through **CARS™ Ratings**, investors can identify rated CDFI loan funds by geography, impact focus, and a host of other attributes. CARS is launching a data collection and reporting service to help investors monitor quarterly financial and annual impact performance of CDFI loan funds. In 2014, investors will be able to compare the performance of individual CDFI loan funds to others in their peer group. This will enable the assessment of performance trends (both actual and based on ratio analysis) for a group of CDFIs or for the CDFI loan fund industry as a whole over multiple years and/or quarters.

**Domini Social Investments** offers retail investors access to community development finance through fixed income investments that increase access to capital in underserved communities. The Domini Social Bond Fund invests in bonds and other debt instruments that meet environmental and social standards, investing at least 85% of its assets in intermediate-term, investment-grade fixed income securities, including government agency bonds, corporate mortgage-backed and asset-backed securities, taxable municipal bonds, and US dollar-denominated bonds issued by non-US entities.
mortgage purchases in low- to moderate-income areas.

There are also loan funds, often CDFIs, that specialize in lending to marginalized communities. These funds attract investors with specific social goals and build specialist capacity for tackling complex investment deals. For example, they build stakeholder relationships with community advocacy groups and interested investors, and they have the ability to leverage their own and other investment sources.

Impact notes, typically concessionary investment products, present opportunities for both institutional and individual investors to invest in the local economy, while simultaneously supporting the creation of social and environmental benefits across sectors. They are usually purchased for a specified number of years at a fixed rate of interest. Such notes have been used to provide loan capital for small and micro businesses, affordable housing, community facilities, and natural resource projects.

Strategies for Fixed Income Community Investment

Opportunities for fixed income community investments can be identified by looking at where the capital will be deployed and who will be utilizing it. In general, fixed income community investments are directed to low- to moderate-income areas, marginalized communities due to reasons of race, gender, or class, and to nonprofit or community organizations underserved by traditional lending institutions.

The fixed income market for community investment has a variety of opportunities for market-rate investments, typically in publicly issued bonds targeted to low-income communities. The below-market opportunities for community investment include investments in CDFI loan funds, which often (but not always) use concessionary investments to support lending to low-income communities, nonprofit organizations, and community groups typically unreached by conventional lenders.
Fixed income strategies include:

- **Targeted asset-backed securities.** Often backed by government agencies such as Fannie Mae or the U.S. Small Business Administration (SBA), these securities can target low-income homeowners or minority- or women-owned businesses. These offer market rates of return.

- **Public debt for targeted needs.** A number of public sector bonds support community development projects in Tax-Increment Finance Districts, schools and educational services, or other targeted areas with specific social benefits. These offer market rates of return.

- **CDFI loan funds.** CDFI loan funds focus on real estate development for affordable housing, commercial projects, and workspace for nonprofit organizations. They also focus on small business and nonprofit lending as well as job creation in underserved markets. CDFI loan funds are typically but not always concessionary in nature, allowing them to lend in areas that the market otherwise is unlikely to serve.

**Public Equities**

There is a well-established tradition of responsible investment in publicly traded corporations that identifies good environmental, social, and governance (ESG) performance for stock selection purposes or engages with the management of portfolio companies to improve corporate practices and standards. However, community investment in the public equity asset class has received relatively little attention and some skepticism from practitioners in the field who feel that the impact of holding a small percentage of a large company is very different from that of purchasing debt that directly supports, for example, affordable housing development. Nevertheless, there is no reason why community investment criteria cannot be integrated into public equities strategies in ways that may help promote social benefit in marginalized communities.

Giving preference in portfolio selection to publicly traded companies that invest or create job opportunities in underserved communities, responsibly manage labor conditions in their supply chain, and practice community-oriented philanthropy is one potential public equity strategy. The F.B. Heron Foundation, for example, has used community-related criteria to help develop a community investing public equities product with an investment firm. Investors can also further their community-oriented interests through shareholder engagement with the management of publicly traded corporations regarding their companies’ impact, positive or negative, on communities.

Coastal Enterprises, Inc. (CEI) is a CDFI and CDC (community development corporation) based in Wicasset, Maine, that focuses on rural business development and financing. It accomplishes these goals by lending to and investing in small and medium sized businesses. CEI Investment Notes provide a way for individuals and institutions to become involved in this process. A CEI Investment Note is purchased for a specific number of years at a fixed rate of interest. Funds from CEI Investment Notes are combined and put to work in Maine to provide loan capital to small and micro businesses, affordable housing projects, community facilities, and natural resource industries.

The US SIF Foundation 2012 Report on Sustainable and Responsible Investing in the United States delves deeply into the extent to which institutional asset owners and managers are integrating social, environmental and governance factors into stock selection and engagement.
Evaluation of community investing opportunities in public equities involves understanding the extent to which a corporation addresses the needs of the communities in which it operates and the extent to which fund managers integrate community investment criteria into their investment analysis and stock selection practices. These criteria are likely to vary widely by industry sector and company size.

Community investment strategies parallel those of other environmental, social, and governance strategies for public equities. They fall into two major categories:

- **Stock or fund selection.** Investors can choose to invest in corporations with better community relations or community investment strategies, or choose to avoid corporations with poor performance in these areas. By favoring positive community performance in publicly traded corporations, investors can send a signal to the corporations, and to stakeholders more broadly, about the importance they attach to corporate social performance.

- **Shareholder engagement.** Investors can use their rights as shareholders in corporations to engage on community investment issues through dialogues with company management, or through filing or co-filing shareholder resolutions on material issues that touch on management or social performance.

There are few dedicated community investment public equity products, though a number of wealth and fund managers associated with sustainable and responsible investing incorporate core community investment criteria into their stock selection and shareholder engagement practices.

### Private Equity

Private equity can be considered community investment when it is characterized by investments made in funds or made directly into privately held companies that create specified social benefits. Private equity (including venture capital) investment has the potential advantage of close relationships with portfolio companies, influence at the early stage of corporate development, and closer targeting of specific social goals. These investments create financial and social returns, aid job creation, foster the production of quality goods that serve low-income communities, and encourage minority-owned businesses.

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**F.B. Heron Foundation** sought to align its endowment’s investments with its charitable mission to reduce poverty by pursuing a strategy that would empower low-income communities. Heron focused on the public equities portion of its endowment, one of the most difficult asset classes to tackle in the community investing space. Hiring an experienced investment research firm, it developed a method for selecting best-in-class companies in each industry of the S&P 500 based on the level of their engagement with low- and moderate income communities. The strategy considers work force development, wealth creation and corporate philanthropy. The F.B. Heron/State Street Global Advisors Community Investment Index provides a large-cap benchmark that can be utilized by institutional investors looking to have a meaningful impact across all asset classes.
Strategies for Community Investment through Private Equity

Community investment strategies parallel those of other environmental, social, and governance strategies for public equity. Limited partners, such as institutional investors, high net worth individuals, or family offices, may deliberately invest their assets in private equity funds with a social mission. Similarly, the general partners, the private equity fund managers in this case, can invest the funds that they manage directly into companies that seek positive social benefits. These investments fall into two major categories: market-rate investment strategies that target specific regions or sectors that support economic development in marginalized communities; and concessionary investments that target either high-risk areas or specialized business plans with significant social benefit.

Market-rate private equity strategies utilizing community investments have frequently emerged out of the economically targeted investment policies of large institutional investors. Although private equity investments in community projects are not new, they have been gathering greater attention recently as the asset class has been closely identified with the impact investment space. Impact investors often look for new products and services and may link their work with traditional venture capital investments or to community investments that provide a social return.

Below-market private equity investments can target outsized benefits by filling gaps where market-rate investors are unwilling to invest. These may include taking on geographic risk by working in hard-to-access regions or communities, or specific social programs such as healthcare delivery in poor communities. Private equity investments can offer the advantage of more narrowly tailoring strategies to particular mission areas for foundations and socially oriented high net worth investors who may have some flexibility in their return expectations.

Real Estate

Community investment real estate opportunities include funds that target underserved communities, provide facilities for important community organizations and services, and target community development through catalytic investments in the built environment.

Real estate investments, whether through private equity vehicles or structured as Real Estate Investment Trusts (REITs), have the potential to offer concentrated investments in marginalized communities. Over the past 15 years, the asset class has been of particular interest to large institutional investors because real estate investments can be made at scale. A number of for-profit...
real estate funds have learned to blend public subsidies (such as New Markets and other tax credits) and private investments to better target investments to serve marginalized communities.

Real estate is a highly specialized area, and for many investors, a direct path to become involved is through CDFI loan funds that specialize in real estate investment opportunities. Specialization in multi-family affordable housing, health clinics and day care centers, and more recently mixed-use, brownfield, and smart growth investments meant to anchor economic development in marginalized communities, have all seen active lending from the CDFI communities, often in partnership with for-profit real estate developers and the public sector.

Evaluating these projects necessitates a balance between people and place, with concerns about gentrification and displacement on the one hand, and economic development and job creation on the other, a concern that is central to all community investments but is perhaps most prominent in real estate.

**Strategies for Community Investment in Real Estate**

Real estate investments can take the form of both equity and debt investment through vehicles that include:

- **Market-rate private equity funds** that target underserved areas or communities or focus on market niches such as workforce housing and which often blend public subsidies with private capital; and

- **Loan funds** that focus on affordable housing development or management.

Market-rate real estate investment funds can invest at scale and have been a particularly common vehicle for institutional investors such as foundations and pension funds. At the same time, specialist developers (and to a lesser extent, funds) focused on community investment outcomes have grown through investments from high net worth individuals and family offices.
Concessionary investments in real estate have particularly benefited from the network of tax credits and other public subsidies and regulations focused on specific social outcomes, in particular the Low-Income Housing Tax Credit, the New Markets Tax Credit, and bank-led lending that meets Community Reinvestment Act criteria. The CDFI industry has been particularly active in real estate investing, including affordable housing and nonprofit development.

The National Equity Fund utilizes low-income housing tax credits to invest in the development of low-income residences through partnerships with more than 700 nonprofit and for-profit developers. To date, NEF has developed over 127,000 units—both single and multi-family.
SECTION THREE: Engaging Investors via Sectoral Approaches

Our interviews suggest that one of the barriers to increased investment from all types of investors is that the phrase “community investment” can invoke a sense of disengagement. Investors and managers have told us that community investment is something “that banks do.” At the same time, they express an interest in investment products that qualify as community investments as described in our introduction. For these investors, what is interesting about community investment is less its development as a set of financial products, and more its role as a tool for solving social problems of particular interest to them, such as reducing childhood obesity or increasing high school graduation rates.

For these investors, perhaps, the most likely way to engage them is not through the broad frame of community investment per se, but rather through the sector or social goals most relevant to them.

This is especially true for those who define themselves as mission or impact investors in the philanthropic and high net worth communities. These investors may desire a more tailored fit than what they perceive the broader field of community investment offers, but there is potential to engage them more specifically and deeply at scale on those issues they see as most important.

Below are examples of three sectors that have received attention recently and that demonstrate how sector-specific approaches can create interest in community investment opportunities.

Health and Healthcare Investment

Many foundations have turned their focus towards healthcare delivery to marginalized communities as a developmental goal. Community investments in this sector include investment in healthcare clinics and other service provisions to underserved communities under its broader umbrella.

Health and health outcomes have not been organizing principles for community investment until relatively recently. Among the key developments that have been particularly important for making the sector ripe for development:

1) The passage of the Affordable Care Act expanded the demand and public money available for health care in underserved communities, particularly through federally qualified community health clinics; and

2) Community investors have begun to argue that achieving positive health outcomes is an appropriate goal as it captures a holistic measure of positive social benefits from targeted investing.

As a result, health-related community investment is emerging, and has the potential to bring in new sources of capital.
Strategies for Health-Related Community Investing

Investors have designed new products for health-related community investing including:

- Debt or equity products that help support federally qualified healthcare clinics in low-income areas;

- Loan funds that target healthcare service providers, offering loans for real estate development and business expansion, to take advantage of the emerging market in the wake of the Affordable Care Act; and

- Venture capital investments in medical supplies and equipment that serve hard to reach communities—for instance, investments in remote diagnostic technology that reach rural communities.

These investment strategies cross asset classes and risk/return profiles; for example, venture investments may be made at market rate, and loan products may be concessionary or build on public subsidies to target market rates of return.

Each of these strategies builds on traditional community investment practice, but offers the potential to either expand the community investment portfolios of existing investors or bring in new investors who have a particular interest in the health sector but have not been active community investors yet.

To date, the health sector has appealed particularly to large private foundations, but has the potential, depending on the product, to attract capital from other types of charitable endowments and institutional funds.

**Fresh Foods and Sustainable Agriculture**

The interest in impact investment has coincided with a growth of interest in the food sector both as an investment opportunity and as an important target for improved social performance.

Among community investing practitioners, there has been a parallel focus on the production of food in rural communities and the provision of fresh food in underserved urban communities often tagged as “food deserts.”
A number of societal trends have laid the groundwork for community investing in the food sector. These include:

1) Attention to the food sector and its relationship to health outcomes in the popular press;

2) Attention and resources from the federal government for healthy foods, exemplified by the Healthy Food Financing Initiative; and

3) A focus on sustainable agriculture and small scale farm production, linking advocates for rural economic development with environmental groups.

Together, these and related trends have increased investor attention to the healthy food sector, especially from high net worth and retail investors.

Strategies for Investing in Healthy Food Production and Provision

Investors have developed a variety of strategies for community-related investment in the food sector, including:

- Place-based investment funds for loans to rural food producers in specific communities;
- Loan funds that target sustainable agriculture production across regions;
- Loan funds that finance supermarket and other retail food provision to underserved communities; and
- Equity investments in real estate development funds that focus on sustainable agriculture production in areas that currently lack access to healthy food options.

Because the growth of the food sector is tied so closely to federal and state priorities, these investment strategies often involve close public-private cooperation, linking public interest in economic development in targeted areas with private capital investment, as well as continued support for these public initiatives at a legislative and regulatory level. They also may involve more in-depth and frequent interactions between investors and investees, as the impact investment community in particular has been motivated by place-based interests.

The Food Trust works with neighborhoods, schools, grocers, farmers and policymakers to increase access to healthy food. Utilizing a multi-faceted approach that combines nutrition education and an emphasis on greater access to affordable, healthy food, this initiative was recently named among the top five high-impact nonprofits working in the field of health and childhood nutrition. It also helped finance the Pennsylvania Fresh Food Financing Initiative.

California FreshWorks is a public-private partnership loan fund that works to bring healthy food to underserved communities through grocery stores and other initiatives. It has raised $264 million to combat food deserts in California through investments ranging from Calvert Note purchases as low as $20 from retail investors up to several million dollars in investments from Dignity Health, the nation’s fifth largest healthcare system.

The Healthy Food Financing Initiative is an intergovernmental organization that supports projects that increase access to healthy and affordable food in underserved communities through a range of programs at the U.S. Departments of Agriculture (USDA), Treasury, and Health and Human Services (HHS).
The community-related food investment sector has yet to fully emerge, and stakeholders frequently note that there are not enough products to meet investor demand. However, the sector clearly holds promise for attracting new capital. For example, there is potential in the public-private partnerships that target food deserts to help direct conventional real estate and business development investment towards specific public purposes.

**Equitable Transit-Oriented Development**

Advocates of transit-oriented land-use planning and real estate investment have long argued for expanded investment directed towards developing denser, walkable, mixed-use, mixed-income communities near mass transit, typically under the heading of “smart growth.”

Public sector officials in various places have utilized a variety of incentives and land-use restrictions to support smart growth investment. The Partnership for Sustainable Communities, a cross-agency collaboration between the Department of Housing and Urban Development, the Department of Transportation, and the Department of Energy, has developed six “livability” principles that support comprehensive land-use planning.

The arguments for smart growth focus on its potential social and environmental benefits, as well as changing demographics and consumer desires.

The benefits of smart growth are that:

1) Denser, walkable communities expand options for residents and may also help support healthier lifestyles; and

2) Access to mass transit and denser building patterns reduce automobile use, energy consumption and the costs to local governments of providing such infrastructure as roads and water lines.

Historically, post-World War II real estate investment and urban planning maintained a division between residential and commercial (or industrial) areas. This resulted in heavy automobile usage to travel to work and to shop, among other activities. Smart growth advocates argue that this has
created pent-up demand for walkable communities, as evidenced by the high prices associated with properties in dynamic urban neighborhoods.

A concern for community investment advocates is that development of transit-oriented and walkable communities is often associated with gentrification of neighborhoods, implying forced relocation of marginalized communities away from the benefits that smart growth may bring. In addition, urban infill and mixed-use development associated with smart growth may imply larger-scale projects than many traditional community investors have thus far taken on.

But there is also great potential for a transit-oriented community investment focus. Access to transit can reduce transportation costs, walkable communities can provide health benefits, and economic development can bring much needed jobs and activity to underserved communities. From the perspective of community investment, the emphasis that transit-oriented development helps to place on quality of life and de-marginalization of residents is core to many practitioners’ hopes for social impact in their work.

**Strategies for Community-Related Transit-Oriented Development**

Investors have adopted a range of strategies to promote community investment outcomes in the context of transit-oriented development, including:

- Targeted funds that preserve or develop affordable housing units near transit, as part of an effort to secure mixed-income opportunities near transit hubs;

- Market outreach strategies in disadvantaged communities to actively engage communities in community investment efforts; and

- Real estate private equity investments that favor urban infill (re)development meant to catalyze more dynamic, walkable communities near transit stations.

The Office of Sustainable Housing and Communities in the U.S Department of Housing and Urban Development (HUD) works to create sustainable communities through job creation, local business development, and clean energy growth. This office works with federal housing and transportation investments with local land-use decisions to create affordable housing along transit lines, thus reducing energy use, increasing community engagement, and providing transit to employment.

The Bay Area Transit-Oriented Affordable Housing (TOAH) Fund finances the development of affordable housing units near transit lines. The fund offers flexible capital for developers engaged in mixed-use projects, from retail stores to critical-service establishments near transit lines.

The Denver Transit-Oriented Development Fund works for the preservation and creation of over 1,000 affordable housing units through strategic property acquisitions in current and future transit corridors. This initiative primarily serves Denver’s low-income households, which spend on average 60% of their gross income on housing and transportation expenses combined. Through the Low-Income Housing Tax Credit Program, it uses an indirect federal subsidy to finance the development of affordable rental housing for low-income households.
These first two strategies typically involve concessionary investments that secure affordable housing directly, or that, through structured funds, leverage private investment for mixed-income outcomes. The final strategy has often been market-rate investments that coordinate public and private resources for larger scale investments. The investors in this case are institutions and high net worth individuals.
CONCLUSION

This paper has outlined some of the opportunities for and barriers to expanding the pool of capital dedicated to investing in superior social outcomes for marginalized communities. Our work on this project has reinforced our understanding of the community investment field as robust and dynamic.

We have focused on three areas:

- Engaging new and existing investors in community investing;
- Surveying the range of investment products across asset classes that may contribute to community investment outcomes; and
- Highlighting innovative, sector-specific strategies that address targeted goals for community investors and new investment products tailored to those goals.

There is room to build on the community investment field’s many achievements by capturing the attention and meeting the needs of different kinds of investors. Answering the practical challenges of meeting specific social and financial goals through investment product design can be more easily accomplished once the specific demands and needs of investors are well known.

The community investing field is changing internally, as is the context in which it takes place. Regardless of portfolio size, investors have an increased interest in where their investments go and how they are affecting society at large. These changing attitudes coincide with increased excitement around growing and maintaining local economies. Buying local products, supporting local businesses, and creating self-sustaining communities have become popular campaigns in communities and cities throughout the United States. Within this unique context, the community investing space faces an opportune moment to expand its scope and enhance access to investment opportunities.

The knowledge of current community investment practices and an understanding of the barriers that exist help us in our undertaking to expand the community investment space. It is our hope that this paper contributes to ongoing efforts to channel more capital, more effectively, towards social purpose.
RESOURCES FOR COMMUNITY INVESTING

High Net Worth Investors and Family Offices

As part of its overall advisory practice, the SRI Wealth Management Group at RBC Wealth Management provides analysis and recommendations to clients as to whether it is appropriate to include community investments in their portfolios. For interested clients, the team recommends a portion of the portfolio to allocate to community investing purposes after assessing the client’s level of risk tolerance, expected rate of return, and time horizon. The community investment component can also be specified based on the client’s regional interests. [http://www.rbcwealthmanagement.com/]

Veris Wealth Partners, a national sustainable wealth management firm, has developed an Approved List of community investment products with a range of geographic foci, impact areas, risks, and rates of return. Veris sees community investments and CDFIs as low risk and high impact aspects of an investment portfolio. The centralized Approved List, combined with CARS (CDFI Assessment and Rating System) analysis, has reduced the resources required to perform due diligence and allows for customization in both regional and impact area. [http://www.veriswp.com/]

Donor-Advised Funds and Community Foundations

The Central Indiana Community Foundation (CICF) works with a $550 million endowment on a variety of community development projects including collaboration with the Indianapolis Parks Foundation, Making Connections Indianapolis for at risk youths, and the William E. English Foundation, a foundation providing below-market rate office and program space rentals for nonprofit organizations. CICF accepts gifts of appreciated securities (publicly traded stocks and bonds, mutual funds, and stock in closely-held companies) that the donor can use to establish or add to a charitable fund. One can make a direct gift of real estate. Gifts of investments held for more than 12 months can provide the donor an income tax charitable deduction for the property’s full fair-market value, with a deduction limit of 30% of adjusted gross income. These gifts are considered on a case by case basis. [http://www.cicf.org/]

The Council on Foundations offers a comprehensive site map on community foundations. It partnered with Mission Investors Exchange to create a resource for community foundations to meet their increased interest in impact investing. [https://www.missioninvestors.org/audience/community-foundations]

The Greater Cincinnati Foundation has a well-established track record of community investments. GCF invests its charitable assets and offers select community investment projects for their donor-advised funds’ investments. Past investments have included the Community Healthcare Financing Fund, the Greater Cincinnati Energy Alliance, and investments in the Cincinnati Center City Development Corporation (among many others). They offer comprehensive assessments of their investments and process here: [http://www.gcfdn.org/CommunityInvestment/Overview/tabid/230/Default.aspx]

Pension Funds

The California Public Employees Retirement System (CalPERS), one of the largest investment funds in the world, has a long history of investing in California companies and projects. In Supporting Economic Opportunity in California, released in 2011, it explains its continued community investments across asset classes. CalPERS noted the positive impact its investments have had on job creation, infrastructure development, and business creation in California, all while maintaining competitive rates of return and providing for beneficiaries, thus providing a strong example of the potentially catalytic role pension funds can play in community investment. [https://www.calpers.ca.gov/eip-docs/about/press/news/retirement/economic-engine/financial-performance.pdf]

*Impact at Scale*, a report published jointly by Insight at Pacific Community Ventures and the Initiative for Responsible Investment provides a list of economically targeted investments (ETI) in its Appendix D: [http://hausercenter.org/iri/wp-content/uploads/2010/05/FINAL_Impact-at-Scale_InSight_IRI_February-2012_FULL-REPORT.pdf]

The West Coast Infrastructure Exchange seeks alternative financing methods to develop needed infrastructure while creating jobs and investment opportunity for California, Oregon, Washington, and British Columbia. This fund offers a unique opportunity for pension fund involvement: [http://www.westcoastx.com/home.php]
Retail Investors

The Calvert Foundation has pioneered efforts in fixed income investment products, notably with its Women Investing in Women (WIN-WIN) initiative. Taking a page from a World Bank study that emphasizes that economic growth for women has a multiplier effect, WIN-WIN offers fixed income investments that focus on the development of female entrepreneurs. Investments have been made in organizations that provide health care and child care to low-income women, women-run nonprofit businesses that have missions to serve other women, loan funds that invest in women’s entrepreneurship and small businesses, and women-oriented cooperatives. Investments are made via targeted Community Investment Notes issued by Calvert Foundation and offered by MicroPlace Inc. Impact notes of this nature are particularly important for their capacity to engage investors of vastly different portfolio sizes. Low buy-in amounts and fixed rates of return make fixed income investments of this nature a viable option for retail investors. http://www.calvertfoundation.org/invest/how-to-invest/community-investment-note

Cash and Cash Equivalents

The CDFI Fund is an initiative of the U.S. Department of the Treasury. Although the Fund does not make loans directly or finance specific projects, it does award money and tax credits to community-based organizations that work in low-income urban and rural communities. Through its website, the CDFI Fund provides a comprehensive database that allows users to locate CDFIs by region. http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9#certified

The National Community Investment Fund is a nonprofit, private equity trust that invests in Community Development Banking Institutions (CDBIs). It has made important steps in standardizing the measurement of the social impact of community investments in its report NCIF Social Performance Metrics. http://www.ncif.org/images/uploads/NCIF_SPM.pdf

Self-Help is a community development lender, credit union, and real estate developer that works with individuals, organizations, and communities traditionally underserved by conventional markets. It offers federally insured socially responsible deposit accounts with competitive rates of return that support high-impact community economic development in low-income neighborhoods. https://www.self-help.org/
Southern Bancorp is a well-established CDFI with a social mission focusing on development and investment in rural communities throughout the United States, and a particular emphasis on revitalizing rural communities in Arkansas and Mississippi. Operating as a community development bank holding company, it offers both personal and business credit cards, personal checking, savings, and money market accounts, as well as a range of investment products that deliver capital to developing urban and rural areas. [https://banksouthern.com/](https://banksouthern.com/)

Fixed Income

Breckinridge Capital Advisors believes taxable municipal bonds and Build America Bonds (BABs) complement and diversify the portfolio of a fixed income investor, offering a low-risk source of income, predictable returns, and at times higher yields than similarly rated corporate bonds.


Through CARS™ Ratings, investors can identify rated CDFI loan funds by geography, impact focus, and a host of other attributes. CARS is launching a data collection and reporting service to help investors monitor quarterly financial and annual impact performance of CDFI loan funds. In 2014, investors will be able to compare individual CDFI loan funds to others in their peer group, to assess performance trends (both actual and based on ratio analysis) among a group of CDFIs or for the CDFI loan fund industry as a whole over multiple years and/or quarters. [http://carsratingsystem.net/](http://carsratingsystem.net/)

Coastal Enterprises, Inc. is a CDFI and CDC (community development corporation) based in Wicasset, Maine, that focuses on rural business development and financing. It accomplishes these goals by lending to and investing in small and medium sized businesses. CEI Investment Notes provide a way for individuals and institutions to become involved in this process. A CEI Investment Note is purchased for a specific number of years at a fixed rate of interest. Funds from CEI Investment Notes are combined and put to work in Maine to provide loan capital to small and micro businesses, affordable housing projects, community facilities, and natural resource industries. [http://www.ceimaine.org/CINI](http://www.ceimaine.org/CINI)
Community Capital Management (CCM) currently works with fixed income investments across a wide variety of community development sectors, offering customization of investments for community impact. It is an independently owned fixed income advisor to a Community Reinvestment Act qualified investment fund. The firm primarily invests in government-related subsectors of the bond market that are traditionally excluded from the major bond indices and that produce above-average risk-adjusted returns. At present, CCM manages over $1 billion in impact investing portfolios providing fixed income services. [http://www.ccmfixedincome.com/](http://www.ccmfixedincome.com/)

Domini Social Investments offers retail investors access to community development finance through fixed income investments that increase access to capital in underserved communities. The Domini Social Bond Fund invests in bonds and other debt instruments that meet environmental and social standards, investing at least 85% of its assets in intermediate-term, investment-grade fixed income securities, including government agency bonds, corporate mortgage-backed and asset-backed securities, taxable municipal bonds, and US dollar-denominated bonds issued by non-US entities. [http://www.domini.com/](http://www.domini.com/)

The Reinvestment Fund, headquartered in Philadelphia, is a CDFI Fund that promotes access to capital and local economic growth in urban and rural low-income communities across the nation. It is a known leader in neighborhood revitalization with a focus on socially responsible community investment across the mid-Atlantic region. The Fund participates in cross sector investments including low-income real estate development, education initiatives, fresh food access, and sustainable energy. [http://www.trfund.com/](http://www.trfund.com/)

Public Equities

F.B. Heron Foundation sought to align its endowment’s investments with its charitable mission to reduce poverty by pursuing a strategy that would empower low-income communities. Heron focused on the public equities portion of its endowment, one of the most difficult asset classes to tackle in the community investing space. Hiring an experienced investment research firm, it developed a method for selecting best-in-class companies in each industry of the S&P 500 based on the level of their engagement with low- and moderate-income communities. The strategy considers work force development, wealth creation and corporate philanthropy. The F.B. Heron/State Street Global Advisors Community Investment Index provides a large-cap benchmark that can be utilized by institutional investors looking to have a meaningful impact across all asset classes. [http://www.fbheron.org/](http://www.fbheron.org/)
Private Equity

The Community Development Venture Capital Alliance (CDVCA) is both a fund of funds and a co-investment fund that invests venture capital directly in businesses with the goal to provide capital to CDVC funds that have potential to provide social and financial returns. To date, there have been more than $1.6 million worth of investments in fund of funds investments and more than $1.3 million in co-investments, with a minimum investment requirement of $250,000 throughout the United States. CDVCA also serves as a trade association for the community development venture capital industry.

http://cdvca.org/

The US SIF Foundation 2012 Report on Sustainable and Responsible Investing in the United States delves deeply into the extent to which institutional asset owners and managers are integrating social, environmental and governance factors into portfolio selection and engagement. It notes that more than 100 alternative investment funds managing $77 billion in assets reported that they consider community-related investment criteria.

http://www.ussif.org/trends

Real Estate

Fundrise is an investment platform for commercial real estate in major metropolitan areas that allows individual, retail investors, to invest directly into local properties. https://fundrise.com/

The Initiative for a Competitive Inner City (ICIC) is a nonprofit research organization that focuses on inner city economies and businesses in the United States. It provides strategies and best practices for growing inner city economies and creating jobs as well as resources for businesses operating in inner cities. Information on market opportunities, and comprehensive data and research across issue areas can be found here: http://www.icic.org

The National Equity Fund utilizes low-income housing tax credits to invest in the development of low-income residences through partnerships with more than 700 nonprofit and for-profit developers. To date, NEF has developed over 127,000 units—both single and multi-family. http://www.nefinc.org/
The Partnership for Sustainable Communities is comprised of the U.S. Department of Housing and Urban Development (HUD), the U.S. Department of Transportation (DOT), and the U.S. Environmental Protection Agency (EPA). The Partnership is collaborating with the U.S. Department of Agriculture (USDA) to ensure that all four agencies coordinate in their spending, policies and programs to ensure the support of rural communities. The following guide illustrates the federal resources rural communities can utilize to promote healthy and sustainable growth. Partnership for Sustainable Communities in Collaboration with the U.S. Department of Agriculture. Federal Resources for Sustainable Rural Communities. Rep. Washington D.C.: HUD, DOT, EPA, and USDA, 2012. Print. http://www.epa.gov/dced/pdf/federal_resources_rural.pdf

Urban Land Institute (ULI) Responsible Property Council brings industry leaders together to discuss responsible land use with the ultimate goal of creating sustainable and vibrant communities. http://www.uli.org

Health and Healthcare Investment

The healthcare sector presents opportunities where investors, by tacking the underlying causes of poor health, can generate positive multiplier effects within communities. In A Market for Health: Shifting the Paradigm for Investing in Health, the authors argue for investments in health care to bring about lifestyle changes to encourage prevention versus treatment through social networks and support systems that address the ‘social determinants’ of health.


The California Healthcare Foundation (CHCF) works to bring health care at low cost to California residents. To this end, the CHCF has created an innovation investment fund that supports entrepreneurs and businesses that work towards reducing barriers and lowering costs for healthcare access. http://www.chcf.org/
Grantmakers In Health (GIH) held a series of convenings to discuss the challenges for foundations interested in leveraging private equity investments to fuel the growth of companies that commercialize health care, prevention, and wellness products with the potential to improve health outcomes. Its *Guide to Impact Investing* is a compilation of information gathered through these conferences and through its own research. This work provides suggestions for how impact investing can enhance an organization’s work and the initial steps to implementing an effective investment program. [http://gih.org/usr_doc/GIH_Guide_to_Impact_Investing_FINAL_May_2011.pdf](http://gih.org/usr_doc/GIH_Guide_to_Impact_Investing_FINAL_May_2011.pdf)

The SEIU Capital Stewardship Program has implemented strategies consistent with community investing objectives in its efforts to transform health care. Driven by the Affordable Care Act, which will increase pressure to reduce costs, SEIU is working to develop a sector-specific CDFI to support community health related job creation in low-income communities. The loan fund’s aim will be to foster new facilities development and provide specialized capital to build organizational infrastructure and informational technology. [http://www.seiu.org/a/capital-stewardship.php](http://www.seiu.org/a/capital-stewardship.php)

**Fresh Food and Sustainable Agriculture**

**California FreshWorks** is a public-private partnership loan fund that works to bring healthy food to underserved communities through grocery stores and other initiatives. It has raised $264 million to combat food deserts in California through investments ranging from Calvert Note purchases as low as $20 to $2.5 million investments from Dignity Health, the nation’s fifth largest health system. [http://www.cafreshworks.com/](http://www.cafreshworks.com/)

**The Food Trust** works with neighborhoods, schools, grocers, farmers and policymakers to increase access to healthy food. Utilizing a multi-faceted approach that combines nutrition education and greater access to affordable, healthy food, this initiative was recently named among the top five high-impact nonprofits working in the field of health and childhood nutrition and helped to finance the Pennsylvania Fresh Food Financing Initiative. [http://thefoodtrust.org/](http://thefoodtrust.org/)

**The Healthy Food Financing Initiative** is an intergovernmental organization that supports projects that increase access to healthy and affordable food to underserved communities through a range of programs at the U.S. Departments of Agriculture (USDA), Treasury, and Health and Human Services (HHS) [http://www.acf.hhs.gov/programs/ocs/resource/healthy-food-financing-initiative-0](http://www.acf.hhs.gov/programs/ocs/resource/healthy-food-financing-initiative-0)
The Pennsylvania Fresh Food Financing Initiative is a statewide financing program designed to attract supermarkets and grocery stores to underserved urban areas and rural communities. Eligibility is based upon the number of stores within an applied area and is designed to provide maximum support for stores in areas with both lower incomes and underserved residents. [http://www.trfund.com/financing/Healthy_food/FreshFood Financing.html](http://www.trfund.com/financing/Healthy_food/FreshFood Financing.html)

Revolution Foods, an initiative based in Oakland, California, encourages healthy eating habits in children by providing healthy meals to schools. Revolution Foods also supports educational programs that teach children about nutrition and ways to make balanced meals. Through a line of credit from RSF Social Finance, a loan from the W.K. Kellogg Foundation, and other investments from DBL Investors, the Westly Group, and Catamount Ventures, it was able to move beyond grant funding and create a financing model that combines multi-stakeholder collaboration and private capital engagement. It recently signed a contract with the San Francisco Unified School District to be the lunch provider for 114 public schools. [http://revfoods.com/](http://revfoods.com/)

Transit Oriented Development


The Center for Transit-Oriented Development notes the important role CDFIs have the potential to play in financing equitable transit-oriented development (TOD). The development of communities located in close proximity to transit lines necessitates sophisticated financing tools to address the complex issues that are inherent in a multi-faceted approach to community development. These challenges of bringing TOD to scale in specifically low-income markets are ones that can be met by CDFI and public sector commitment. Center for Transit-Oriented Development. *CDFIs and Transit-Oriented Development*. Working paper. San Francisco: Federal Reserve Bank of San Francisco: Community Development Investment Center, 2010. [http://ctod.org/pdfs/2010CDFItod.pdf](http://ctod.org/pdfs/2010CDFItod.pdf)
The Denver Transit Oriented Development Fund works for the preservation and creation of over 1,000 affordable housing units through strategic property acquisitions in current and future transit corridors. The initiative primarily serves Denver’s low-income households, which spend on average 60% of their gross income on housing and transportation expenses combined. Through the Low-Income Housing Tax Credit Program, it uses an indirect federal subsidy to finance the development of affordable rental housing for low-income households. [http://www.denvergov.org/ DenverOfficeofStrategicPartnerships/Partnerships/DenverTransitOrientedDevelopmentFund/tabid/436574/Default.aspx](http://www.denvergov.org/DenverOfficeofStrategicPartnerships/Partnerships/DenverTransitOrientedDevelopmentFund/tabid/436574/Default.aspx)

Enterprise, The National Housing Trust, and Reconnecting America collaborated on a report to help community leaders, community development corporations (CDCs) and nonprofit affordable housing developers by presenting approaches currently in use, current challenges and barriers, and potential tools communities can use. The study focuses on Atlanta, Denver, Seattle, and Washington, D.C.


The Office of Sustainable Housing and Communities in the U.S Department of Housing and Urban Development (HUD) works to create sustainable communities through job creation, local business development, and clean energy growth. This office works with federal housing and transportation investments with local land use decisions to create affordable housing along transit lines, thus reducing energy use, increasing community engagement, and providing transit to employment. [http://portal.hud.gov/hudportal/HUD?src=/program_offices/sustainable_housing_communities](http://portal.hud.gov/hudportal/HUD?src=/program_offices/sustainable_housing_communities)

Community Development Partnerships’ Network, The Enterprise Foundation, the Local Initiative Support Corporation, and the National Housing Institute collaborate to provide CDCs, government officials and agencies, lenders, community members, and local foundations with information to assess and improve the effectiveness of their urban development efforts.

Community Development Research

The Carsey Institute, commissioned by Neighborworks America and the U.S. Department of Treasury’s CDFI Fund, assessed the performance of a large swath of CDFIs from 2005 to 2010, analyzing performance on issues such as capitalization, liquidity and portfolio, and risk management.


The CDFI Fund is an initiative of the U.S. Department of the Treasury. Although the Fund does not make loans directly or finance specific projects, it does award money and tax credits to community-based organizations that work in low-income urban and rural communities. It also posts research and impact reports released by CDFIs and various research organizations. [http://www.cdfifund.gov/impact_we_make/data_reports.asp](http://www.cdfifund.gov/impact_we_make/data_reports.asp)

The Federal Reserve Bank of San Francisco’s Center for Community Development Investments assembled experts in the field of community development finance to assess changes in the field resulting from the current economic downturn. Through collection of data, analysis, and interviews with key stakeholder, report authors have assembled a comprehensive portrait of the current state of play.


The US SIF Foundation offers investors a practical guide to community investing based on current practice among fund managers, wealth advisors and consultants. Readers will find not only resource links and options by asset class, but an analysis of key issues that will influence the future of community development finance.

In 2000, the Social Investment Task Force, a British initiative, recommended a five-point program of action for Government, business, finance and the voluntary and community sector aimed at increasing investment, enterprise and wealth creation. In particular, the report identified mechanisms to unleash new and sustainable sources of private investment in under-invested communities. In 2005, the Task Force issued an update to the original report.


Through a collection of essays from experts in the community development field, Investing in What Works for America’s Communities calls on leaders from the public, private, and nonprofit sectors to rethink community development projects financing and structure to better alleviate poverty.


The following report outlines methodology for developing community investment products across asset classes.

Measuring Community Investment Impact

The National Community Investment Fund (NCIF), working in collaboration with the Impact Reporting Investment Standards (IRIS) and the Global Impact Investing Network (GIIN), developed Social Performance Metrics to measure the social impact of banks and thrifts on communities. By identifying depository institutions with a community development mission, the NCIF has helped to promote deposits in Community Development Banking Institutions and has helped to encourage standardization of measurable data among CDBIs for future investors.


Associations

There are multiple associations that support community investment activity through targeted and specific activities. These include:

- CDFI Coalition
- Community Development Bankers Association
- Community Development Venture Capital Alliance (CDVCA)
- Global Impact Investing Network (GIIN)
- Investor's Circle
- Mission Investors Exchange
- National Federation of Community Development Credit Unions (NF CDCU)
Opportunity Finance Network (OFN)

SJF Institute

US SIF: The Forum for Sustainable and Responsible Investment