

incourage

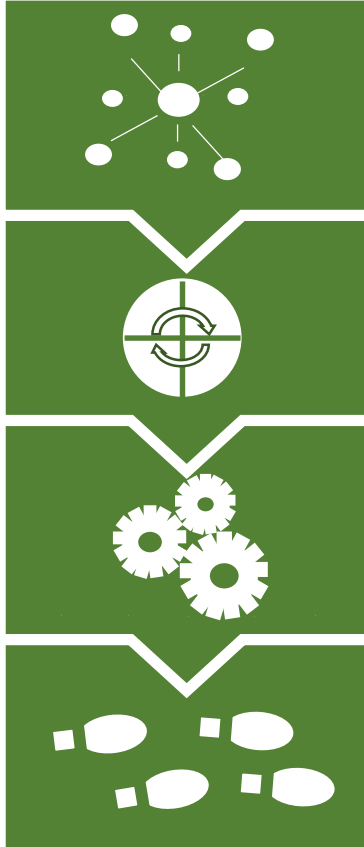
Idea to Action:

100% for Mission

October 13, 2015

Prepared by:





Background & Introduction

Impact Investing Life Cycle

**Aligned Investments:
Models for Moving to 100% for Mission**

Next Steps & Resources

Impact Investing: A Social Investing Tool

SOCIAL INVESTING

SRI: SUSTAINABLE, RESPONSIBLE & IMPACT INVESTING

ESG: ENVIRONMENTAL, SOCIAL & GOVERNANCE CRITERIA

Screening

**Shareholder
Activism**

**Impact
Investing**

ACTIVE OWNERSHIP

PROACTIVE INVESTING

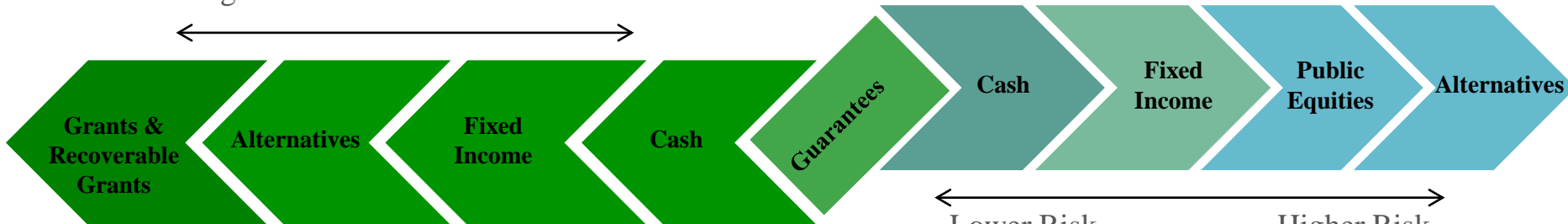
Impact Investing: A Philanthropic Tool

Investing into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.¹

- Any asset class or structure (cash, fixed income, equity, etc.)
- Any expected financial return (interest rate, dividend, capital gain)
- Same fiduciary care as any institutional investment

BELOW MARKET-RATE INVESTMENTS²

Higher Risk ← Lower Risk



← Lower Risk Higher Risk →
MARKET-RATE INVESTMENTS

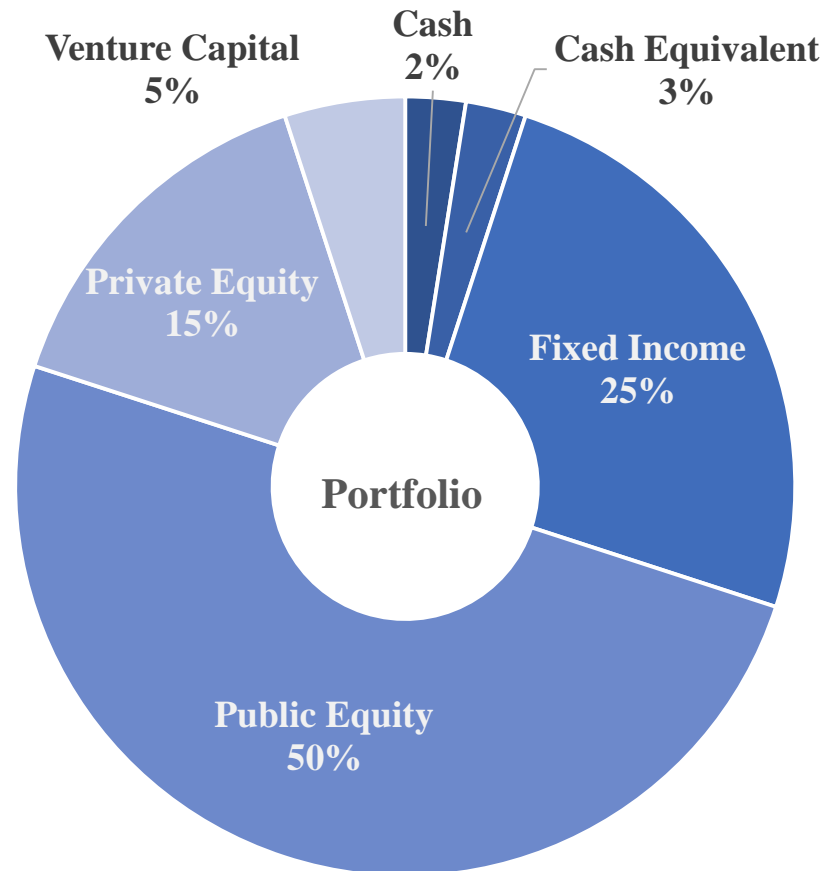
Program-Related Investment / PRI

Mission-Related Investment / MRI

¹Global Impact Investing Network, www.thegiin.org. ²F.B. Heron Foundation. See also Appendices.

Impact Investing: Works with Asset Allocation Framework & Leads to SRI/ESG

Asset Allocation: An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon.



Impact Investing, SRI & ESG: Many Terms, Standard Approaches

Many Terms

- ESG: Environmental , Social, Corporate Governance (factors in investment decisions)
- Local Investing, Community Investing
- Impact Investing
- Mission Investing, Mission-Related Investing
- Program-Related Investing
- Responsible Investing
- SRI: Social Investing, Social Impact Investing
- SRI: Socially Responsible Investing
- SRI: Sustainable and Responsible Investing
- SRI: Sustainable, Responsible and Impact Investing (current definition, US SIF)
- Sustainable Investing
- Values Investing

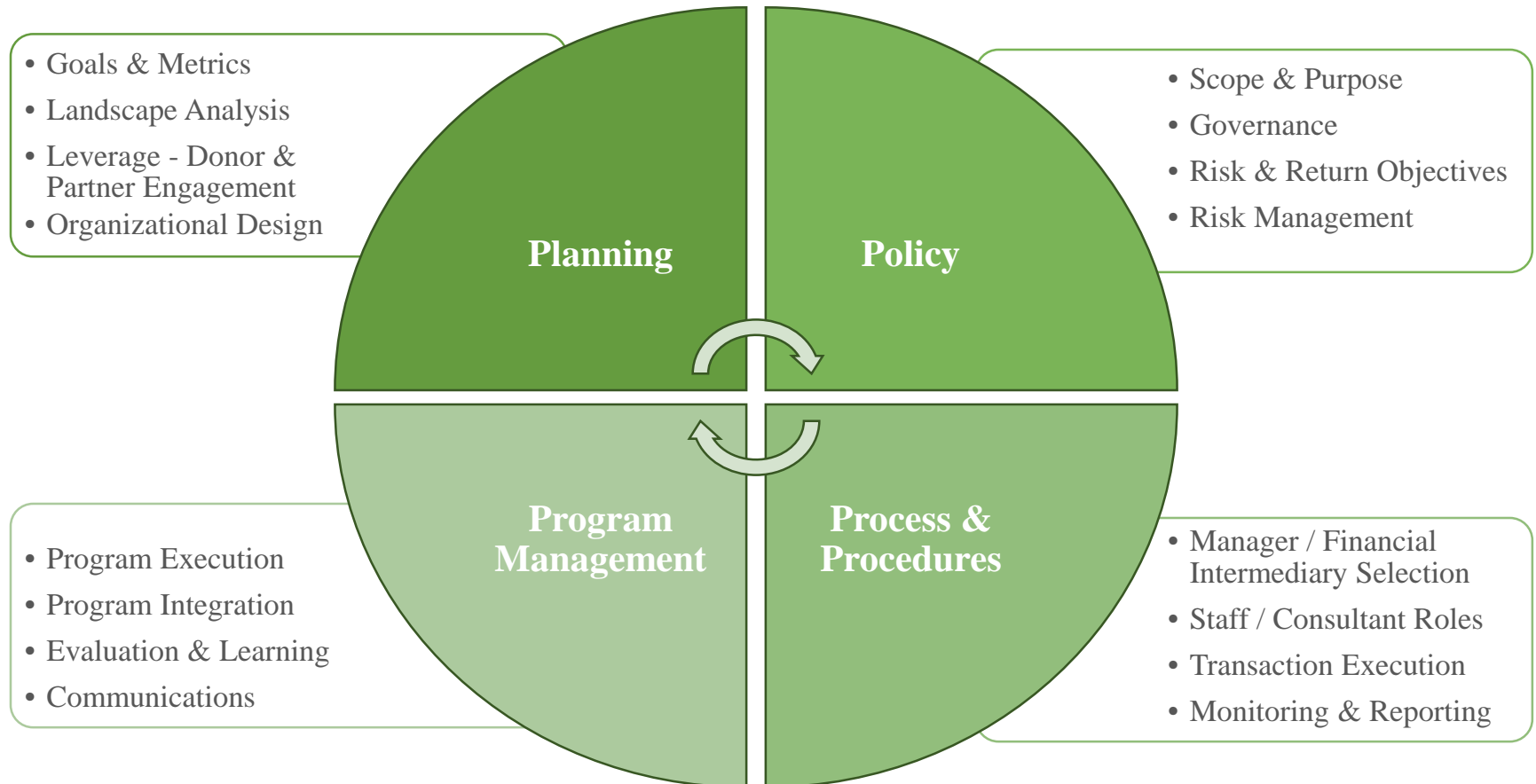
Standard Approaches¹

- ESG Integration: Systematic and explicit inclusion of ESG risks and opportunities into traditional financial analysis
- Negative/Exclusionary: Exclusion from a portfolio of certain sectors or companies based on specific ESG criteria
- Positive/Best-in-class/Inclusionary: Investment in sectors, companies or projects for positive ESG performance relative to industry peers
- Sustainability themed investing: Selection of assets specifically related to sustainability in single- or multi-themed funds or portfolios
- Proactive/Impact Investing: Investment aimed at solving social or environmental problems and/or unlocking opportunity
- Shareholder Activism: Voting proxies and engaging management to influence corporate products and processes

¹ Adapted from US SIF, www.ussif.org. See also Appendices.

Impact Investing Life Cycle

Impact Investing Life Cycle





Life Cycle: Impact Investing, SRI & ESG Planning Considerations

Going forward, Incourage expects to manage two investment portfolios as below. It may have one 100% for Mission Investing Policy that guides both portfolios--or a separate policy for each portfolio.

Incourage Aligned Investments

A community foundation portfolio that Incourage has held and managed on behalf of donors and the community since its 1994 founding

Incourage Proactive Investments (Community Investments)

A platform for place-based, resident-centered and values-aligned investing guided by principles of equity, opportunity and shared stewardship:

- The Tribune, a flagship social enterprise and community accelerator demonstrating the principles of resident-centered development that creates local opportunities
- A portfolio of impact investments focused on building communities that work well for all people, beginning in Incourage's community and surrounding region



Encourage Proactive Investments aim to transform the community via values-aligned investments

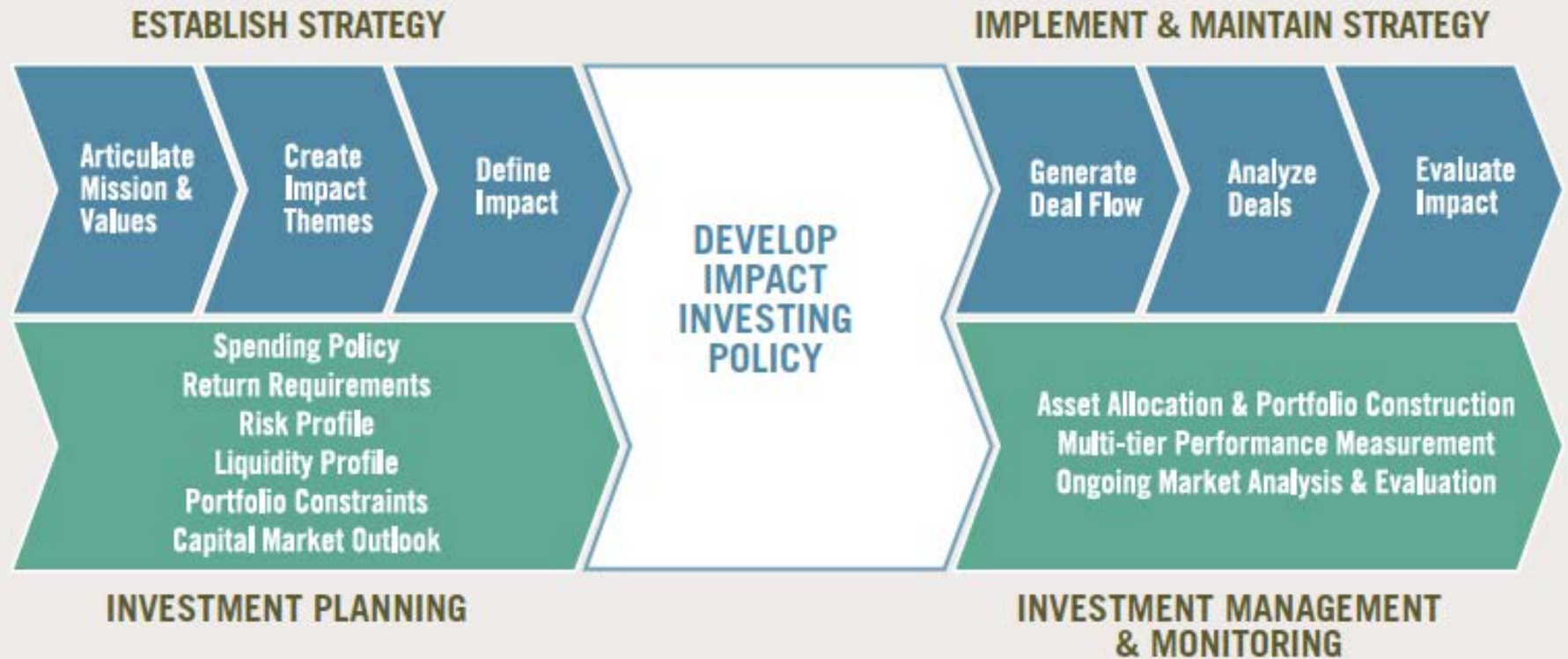
Sector	Amount	Target return	Annual yield	Jobs created
Food Systems/Ag	7,000,000	5.00%	350,000	107
Sustainable Timber/Farmland	5,000,000	8.00%	400,000	77
Microloans	1,000,000	3.00%	30,000	67
Workforce - Student Loans	3,000,000	5.00%	150,000	NA
Affordable Housing	10,000,000	5.00%	500,000	100
Nonprofit Facilities & Enterprises	10,000,000	5.00%	500,000	100
Tribune Building	10,000,000	NA	NA	20+
Commercial Real Estate/Energy	7,500,000	5.00%	375,000	115
Growth Companies - Equity/Hybrid	5,500,000	8.00%	440,000	85
Wisconsin Fixed-Income Securities	10,000,000	5.00%	500,000	100
Wisconsin Public Equities	6,000,000	6.00%	360,000	NA
Total	\$75,000,000	4.81%	\$3,605,000	771

Aligned Investments: Models for Moving to 100% for Mission



Models – Portfolio Construction

Assumes
building portfolio
from scratch

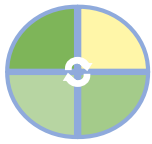




Models – Portfolio Activation

Assumes re-aligning
an existing portfolio
to values and issues

1. Inventory environmental and social issues of concern
2. Evaluate impact of current investment activities across asset classes, including potential harm to be mitigated
3. Identify the Impact Opportunity Set specific to issues and asset allocation
4. Conduct a “gap” analysis between current activities and the Impact Opportunity Set to identify general and specific investment opportunities that fill the gaps analyzed
5. Revise Investment Policy Statement to reflect new strategy of Total Portfolio Activation, specifying how impact issues shape investment selection, active ownership, network participation, and policy initiatives across asset classes
6. Conduct a capacity analysis in order to determine which investment activities can be taken directly by the investor and which should be delegated to experienced impact asset managers
7. Re-allocate assets to higher impact investment opportunities identified
8. Monitor portfolio performance according to impact objectives
9. Continually assess on-going Total Portfolio



Models – F.B. Heron Foundation All Assets Invested for Mission

A novel, emerging approach. Encourage can use elements of all three approaches.

The World Has Changed and So Must We

The F.B. Heron Foundation (“Heron”) exists solely to serve a public purpose—in our case, making investments that further the ability of people and communities to move out of poverty and thrive.

*Preface to Heron’s
Investment Policy
and Principles
June, 2014*

Fiduciary Approach

- Investing all assets for mission per the question “what is highest and best use of this asset?”
- All forms of capital – grants treated as off-balance sheet investments
- Tax-status agnostic (for-profits & nonprofits) - “enterprise capital grants” to non-profits have a return on investment (ROI) that goes to the non-profit
- One staff team for both grants and investments; consultants used for some assignments



Incourage – Idea to Action on 100% for Mission

1. What are Incourage's mission, values and environmental and social issues of concern?
2. How is Incourage's current portfolio performing on its own criteria?
 - What role should Incourage's connected capitals play in the process of moving to 100% for mission--moral, human, social, intellectual, reputational, *as well as* financial?
3. What will Incourage do with holdings that are not aligned?
4. What is the time period for bringing the Incourage portfolio into alignment with mission?
5. Are there any early successes to target?
6. Can Incourage enhance its impact through collaboration with other community and place-based funders who want to bring their investment portfolio into alignment with values?



Incorporate Logic Model – A Charter for Incorporate Values and Issues

Incorporate: building a community that works well for all people

GUIDING PRINCIPLES

Values-led
Resident-centered
Place-based

VALUES



Equity



Opportunity



Shared Stewardship

CORE STRATEGY

Connecting and leveraging all **institutional** capitals for increased impact:

- Moral
- Human
- Social
- Intellectual
- Reputational
- Financial

...while stewarding **community** capitals, such as natural capital

KEY LEVERS

Resident Engagement

Financial Capital:

- Impact investments
- Strategic grants
- Purchasing strategy

Research and Data

Capacity Building

Public-Private-Philanthropic Partnerships

Influence and Advocacy

SHIFTS IN COMMUNITY CAPACITY & CONDITIONS (Ongoing)

- Stronger and more inclusive social networks
- Increasingly robust local information ecosystem
- Increasing number of adaptive leaders
- More local investors and users of capital understand impact investing structures
- Increasing number of local institutions and entrepreneurs use data for continuous improvement
- Increased diversity on governing boards and of institutional leadership
- More residents are active in public life and agree on priorities for their shared future

SHORT-TERM OUTCOMES (0-3 years)

- More residents are actively engaged in their community as decision makers, leaders, entrepreneurs and investors
- Inter-organizational relationships within and across sectors are increasingly characterized by trust, shared norms and alignment of priorities for greater impact
- Increased adoption of practice-proven approaches in areas that include community health, and environmental stewardship
- More local investors provide – and firms, organizations, households, and entrepreneurs raise – capital for promising local projects
- Increased openness and transparency in community decision-making processes

INTERMEDIATE OUTCOMES (4-10 years)

- Functioning local and regional capital markets direct capital to promising firms/organizations/ households/entrepreneurs
- Increased local employment in living wage jobs
- Increased diversity of sector and firm size in the economy
- Increased local ownership and control
- Increased resident stewardship of all community assets
- Reduced carbon emissions, water use and waste leading to improvements in the quality and sustainability of local and regional natural resources
- Improved population health
- Community demographic profile that is increasingly balanced, including a growing share of young adults and families

LONG-TERM OUTCOMES (10+ years)

- A strong and inclusive local economy
- A healthy, livable, sustainable community
- A community that is open to change with a culture of shared stewardship

a community that works well for all people

CULTURE CHANGE • Openness to new ideas and entrepreneurial possibilities • Community narratives reflect pride in place
• Mind shift from “I cannot” to “I can” and “We can do better” • A more participatory culture



Assess ESG Performance of Current Incourage Portfolio

Does it work for all people and deliver return on all Incourage capitals?

Existing Portfolio	Assess on Values Criteria	Align via Tactics <i>as Applicable</i>	Aligned Portfolio
Cash	Equity Diversity Comp/Benefits Political Spending Philanthropy	ESG Exclusion Inclusion Themed Proactive Active Ownership	Cash
Fixed Income			Fixed Income
Public Equity	Opportunity Place-Based Benefit Regional Anchor Value Chain Responsible Lending/Fin Services		Public Equity
Private Equity	Shared Stewardship Environmental Disclosure Carbon Emissions Environmentally Sustainable Products & Processes Environmental Justice Risk Management		Private Equity
Venture Capital			Venture Capital



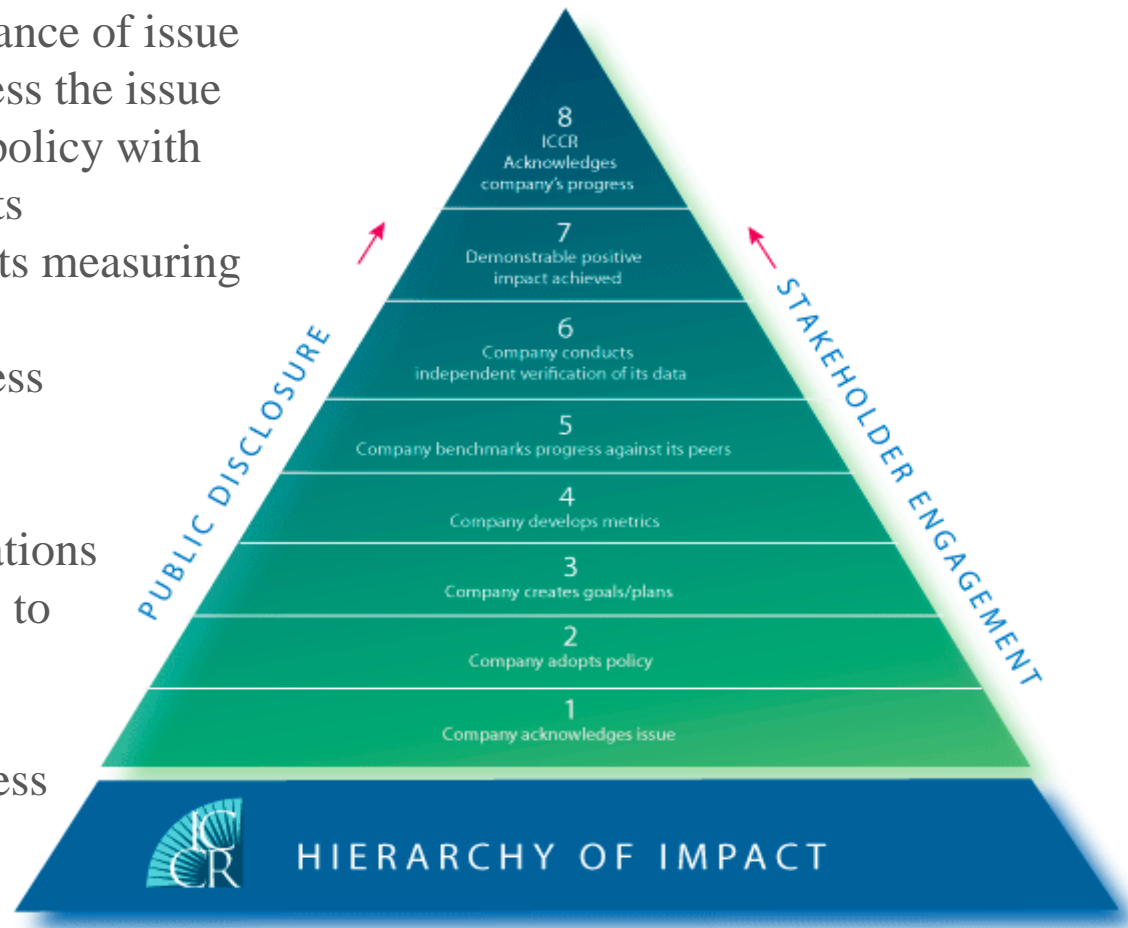
Assess ESG Performance of Incurance Current and Potential Portfolio Based Upon Institution's Values

Sources of Company Information for ESG Evaluation



Example Assessment Criteria: Interfaith Center on Corporate Responsibility Benchmarks of Impact

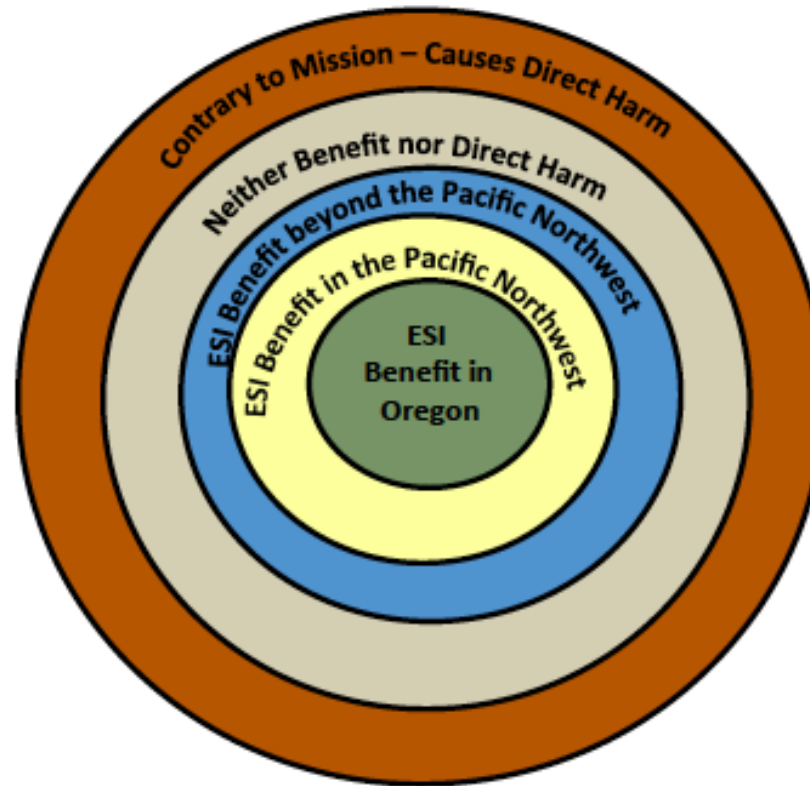
1. Company acknowledges importance of issue
2. Company adopts policy to address the issue
3. Company begins to implement policy with programs/plans, goals and targets
4. Company develops metrics, starts measuring and disclosing information
5. Company benchmarks its progress against others in industry/sector
6. Company conducts independent verification of its data and operations
7. Company's strategic focus leads to demonstrable positive impact
8. ICCR publically or privately acknowledges company's progress





Models – Place-Based & Values-Driven

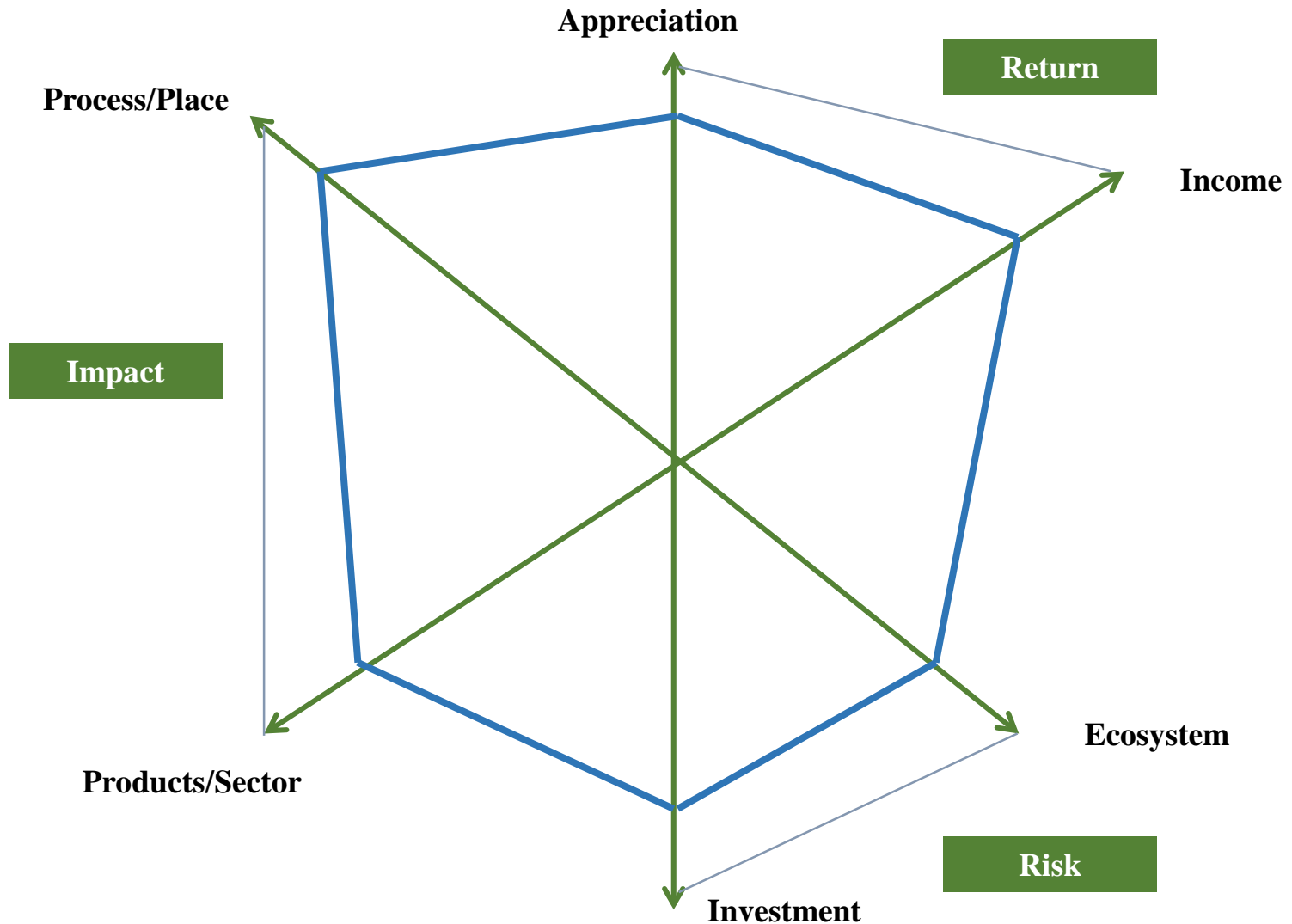
Meyer Memorial Trust Mission-Related Market Rate Investment Strategy “Maximizing Impact”



E=Environmental S=Social I=Economic Impact



Models – Place-Based & Values-Driven





Impact Investing Life Cycle: Policy Statement

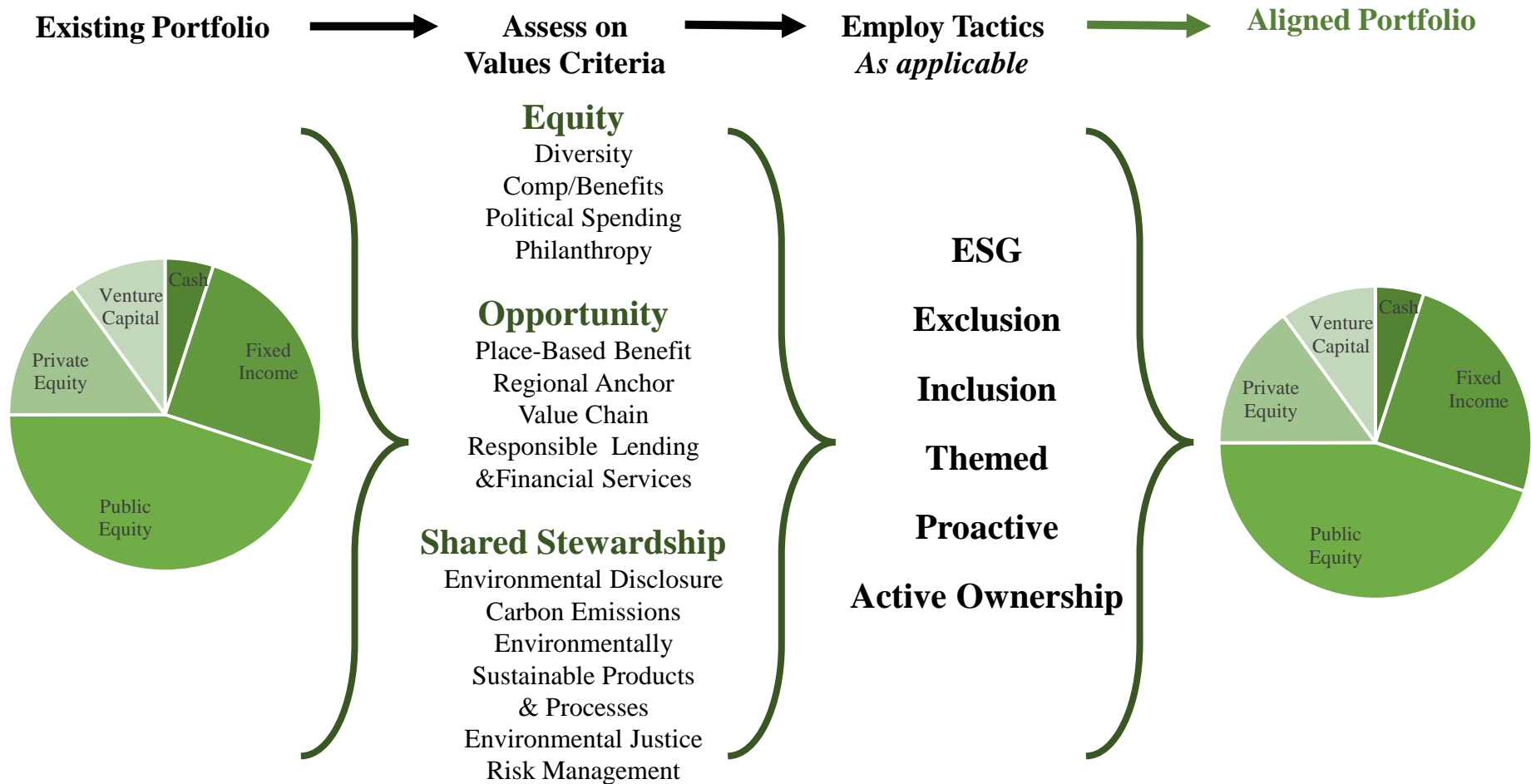
Objectives & Constraints: Values, Issues, Strategy, Parameters & Tactics

I. DEFINITIONS	
Purpose:	
Scope:	
Definition of Duties:	
II. OBJECTIVES	
Performance Objectives:	
Strategy:	
Investment Pools & Asset Allocation:	

III. IMPLEMENTATION	
Time Horizon:	
Manager Performance Objectives:	Wisconsin focus where possible; other priorities TBD
Exclusionary Screens:	
Inclusionary Screens:	
Impact Investment Criteria:	Wisconsin sustainable development; partner with local CDFIs and mission-driven intermediaries where possible
IV. GUIDELINES - SEPARATELY MANAGED ACCOUNTS	
By Asset Class:	General; Equity, Fixed Income, Alternatives, Cash, Soft Brokerage; Proxies, Securities Lending
V. MONITORING & REPORTING	
Key Risks:	Key risks mitigated and tracked
Compliance:	Adhere to policies and applicable regulations; financially sustainable operations
Financial:	Performance tracked to benchmarks, plan and trends
Social:	Performance tracked to specified metrics



Prudent Selection & Implementation of Tactics for 100% Alignment Takes Time



Assess Q3 → Investment Policy Q4 → Implementation Beginning in 2016

Proposed Next Steps & Timeline

Action		Jun - Nov	Nov - Dec	2016
Planning	1. Determine model for implementing 100% for Mission for each Incourage Portfolio – Legacy and Incourage Investments			
	2. For each (and/or both together):			
	<ul style="list-style-type: none"> • Frame social and environmental goals and values as guiding principles, based upon Incourage logic map and case statement • Assess current portfolio against proposed guiding principles • Identify options for 100% mission alignment – including via co-investment with like-minded fiduciaries • Prepare draft investment policy incorporating goals and values 			
	3. Facilitate board in reviewing proposed 100% for Mission polic(ies) and options			
Policy	4. Identify and address operating issues – human resources, consultants, partners			
	1. Finalize and adapt 100% for Mission Investment Policy Statement(s)			
Process & Implementation	2. Develop plan for migrating existing holdings to 100% for Mission			
	1. Establish systems, human resources, processes and procedures to implement 100% for Mission			
	2. Implement 100% for Mission Policie(s)			
	3. Regularly assess progress and performance of 100% for Mission strategy; make course corrections as needed and/or helpful.			

Resources



Breaking News – Place-Based & Values-Driven Models Supported by 2015 MRI Guidance from US Treasury

Private foundations that make mission-related investments (MRI) with expected market-rates of risk-adjusted return are taking comfort in new Federal guidelines for such investments. While community foundation investment practice is regulated at the state level, we understand that state regulations are generally consistent with the new Federal guidance:

Under [IRS] regulations, an investment made by a private foundation will not be considered to be a jeopardizing investment if, in making the investment, **the foundation managers exercise ordinary business care and prudence (under the circumstances prevailing at the time the investment is made) in providing for the long-term and short-term financial needs of the foundation to carry out its charitable purposes...**

....When exercising ordinary business care and prudence in deciding whether to make an investment, foundation managers **may consider all relevant facts and circumstances, including the relationship between a particular investment and the foundation's charitable purposes. Foundation managers are not required to select only investments that offer the highest rates of return, the lowest risks, or the greatest liquidity so long as the foundation managers exercise the requisite ordinary business care and prudence under the facts and circumstances prevailing at the time of the investment in making investment decisions that support, and do not jeopardize, the furtherance of the private foundation's charitable purposes."**

Definitions – Key Impact Investing Terms

Impact Investing: Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.¹

Program-Related Investing (PRI): Program-related investments are private foundation investments in which:

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.

In determining whether a significant purpose of an investment is the production of income or the appreciation of property, it is relevant whether investors who engage in investments only for profit would be likely to make the investment on the same terms as the private foundation.² Significantly, PRIs are defined in the Tax Code of 1969 for private foundations, which are able to count PRIs toward their distribution requirement. The concept of PRIs as investments that are willing to take a below market-rate expected financial return or an increased level of risk for similar return is applied by community foundations and other impact investors, and the IRS Form 990 allows for community foundation reporting of PRIs.

Mission-Related Investing: Although the term mission-related investment is commonly used, there is no legal definition and no legal requirement to qualify for this status. It is typically used to refer to any investment that has an expected market-rate risk-adjusted financial return and is made with the intention of generating a social benefit or impact.

SRI/ESG: Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.

Source: <http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html>

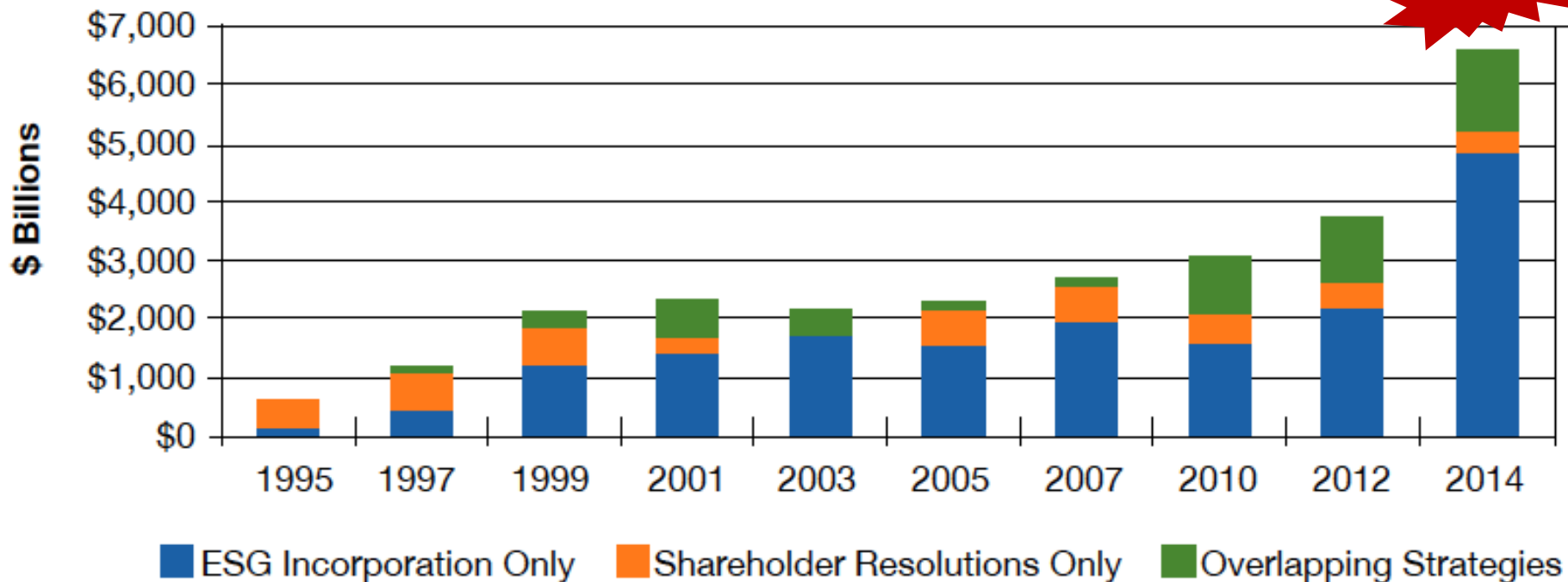
Source: <http://www.irs.gov/Charities-&Non-Profits/Private-Foundations/Program-Related-Investments>

Source: <http://www.unswl.org.au/basics>

Impact Investing, SRI & ESG: Part of a Fast Growing Marketplace

From 1995 to 2012, the SRI universe increased 486 percent, while the broader universe of assets under professional management in the U.S. grew 376 percent (Thomson Reuters Nelson). The \$6.57 trillion engaged in sustainable, responsible and impact investing at the start of 2014 represents \$1 in \$6 of every dollar under professional management in the U.S. (US SIF Foundation).

Sustainable and Responsible Investing in the United States 1995–2014



SOURCE: US SIF Foundation.

Impact Investing, SRI & ESG: A Wealth of Prudent Opportunity

“The evidence is clear that sustainable and responsible investors do not have to pay more to align their investments with their values, or to avoid companies with poor environmental, social or governance practices:” *US SIF Foundation, 2014*

Deutsche Bank Group Climate Change Advisors Study, 2012

Incorporating environment, social and governance (ESG) data in investment analysis is “correlated with superior risk-adjusted returns at a securities level.”

U.N. Environment Program Finance Initiative & Mercer Report, 2007

A review of 36 representative academic studies and 10 related industry research reports about SRI performance and found that “there does not appear to be a performance penalty from taking ESG factors into account in the portfolio management process.”

GMI Ratings Study, 2011

“On average and in aggregate, [responsible investment] portfolios perform comparably to conventional ones.”

Impact Investing, SRI & ESG: Opportunity Recognized by the Mainstream

BECAUSE IMPACT REPORT 2013 UPDATE

Bloomberg

U.S. TRUST
ESG Investing Goes Mainstream

SOCIAL FINANCE & JPMORGAN CHASE & CO.

Generating Positive Impact Alongside Financial Return

Merrill Lynch
Bank of America Corporation

Values and Impact Investing

Opportunities to express personal values through investing have expanded.

Morningstar to Launch First Environmental, Social, and Governance (ESG) Scores for Funds Globally

MARCH 18, 2015

BlackRock Throws Its Weight Behind Impact Investing

The world's largest asset manager is backing investments that seek to combine financial gain with an economic and social mission.

Goldman Sachs

WHO WE ARE WHAT WE DO OUR THINKING CITIZENSHIP

WHAT WE DO > INVESTING AND LENDING >

IMPACT INVESTING

Morgan Stanley

Investing with Impact

Creating Financial, Social and Environmental Value



Impact Investing Report and Policy Resources

Reports and Articles

Mission Stewardship: Aligning Programs, Investments and Administration to Achieve Impact

http://heron.org/sites/default/files/fb_heron_foundation_Mission_Stewardship_Aligning_Programs.pdf

ESG Goes Mainstream

<http://www.ustrust.com/publish/ust/capitalacumen/winter2014/features/ESG-mainstream.html>

Evolution of an Impact Portfolio: From Implementation to Results

<http://klfelicitasfoundation.org/publications/>

US Sustainable, Responsible and Impact Investing Trends 2014,

http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf

Demystifying Responsible Investment Performance. A Review of Key Academic and Broker Research on ESG factors, 2007.

http://www.unepfi.org/fileadmin/documents/Demystifying_Responsible_Investment_Performance_01.pdf

Sustainable Investing. Establishing Long-Term Value and Performance, Deutsche Bank Climate Change Advisors, 2012, https://institutional.deutscheawm.com/content/_media/Sustainable_Investing_2012.pdf

The Evolution of Responsible Investment, Mercer, accessed on May 28, 2015,

<http://www.mercer.com/insights/view/2014/the-evolution-of-responsible-investment.html>

2015 ESG Trends to Watch, Linda-Eling Lee, Global Head of ESG Research, MSCI, January 2015.

<https://www.msci.com/documents/10199/6547ff32-d337-4c3a-9f01-f8c90f43cb91>

Responsible Investing for the Modern Fiduciary. Aligning Goals, Duties, Investments and Impact.

<https://www.northerntrust.com/documents/line-of-sight/wealth-management/responsible-investing-modern-fiduciary.pdf>

100% for Mission Investment Policy Statements and Strategies

F.B. Heron Foundation

<http://heron.org/market>

Jesse Smith Noyes Foundation

<http://www.noyes.org/mission-based-investing/investment-policy>

KL Felicitas Foundation

<http://klfelicitasfoundation.org/impact-investing-overview/strategy-overview/>