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IMPACT INVESTING 101 (AND BEYOND)

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Introduction to the Landscape

- Increasing focus on the power of investment as a vehicle for impact and mission
- A recognition of utility from all sides
  - Mission/impact as a force in the commercial sector
  - Charities see the ability to leverage mission outcomes through market structures
- Effective and complementary to other charitable/mission-related interventions
- Increased (better) opportunities
- More organizations willing/eager to jump in
  - Broader market and community of interest
  - More sharing
- Responsibility to doing it right
  - Not to throw your money away
  - Where is the impact
  - How to approach
  - How to measure

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The Social Context

- Impact Investments: profit and social impact
  - Attention to social values & externalities (e.g., environmental and social impact, fair labor standards, governance issues)
- An impact investment may or may not
  - Advance charitable purposes
    - "Charitable" is (often) a higher threshold than "mission-related" or "impactful"
  - Offer a market-rate expected return
    - Certain impact investments may be considered "prudent" investments
  - Implicate federal tax issues (PRIs generally do)
    - Expenditure responsibility
    - Required pay out
    - Jeopardizing investment rules
    - Self-dealing & excess benefit rules

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These are the People in Your Neighborhood

- Different impact actors have different (and similar) impact investing tools
  - Private foundations
  - Public charities
    - DAFs
  - Individuals
  - Corporations
  - Governmental entities
  - Other
- AND different (and similar) goals and imperatives (sometimes even in the same investment)

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Impact Investment Vehicles

- Typical impact investments
  - Loans
  - Equity Investments
    - Direct investments
    - Fund vehicles (LLCs, Limited Partnerships)
  - Guarantees/Letter of Credit
  - Linked Deposits
- Complex investment structures
  - Tax-credit transactions
  - Social impact bonds/pay for success

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The Private Foundation Context: PRIs & MRIs

- PRIs are a subset of the larger impact investment universe
  - Primary purpose of a PRI = furthering charitable activities/mission
  - Financial returns **may not be** a significant purpose of the investment
- MRIs are prudent investments with an impact component
  - Sliding scale
  - Jeopardizing investment (Section 4944) concerns
  - Notice 2015-62
    - Harmonizing state and federal approach in this area
- Align portfolio to mission
- Although public charities are not subject to the PRI rules, many now seek to make investments that are PRI-like
  - Look to the private foundation experience as a model
  - Note "program-related asset" concept under UPMIFA

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