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Climate-Related Investment for Resilient Communities

Divest-Invest Opportunities in Community-Oriented Climate Solutions

CROATAN INSTITUTE

DivestInvest PHILANTHROPY

Acknowledgments

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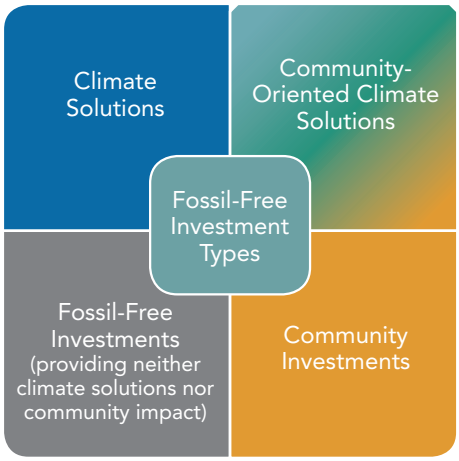
Introduction

Growing numbers of philanthropic foundations concerned about global warming are joining the fossil-fuel divestment movement by pledging to eliminate oil, gas, and coal companies from their portfolios and to invest in solutions to climate change. In making their pledge, signatories to DivestInvest Philanthropy, which now include over 150 philanthropic organizations with more than $10 billion in assets, have explicitly committed to make more mission investments that "support a sustainable and just economy," and many signatories are seeking ways to invest in climate solutions that also have positive social impacts on communities.

To support these emerging efforts, this paper provides a preliminary analysis of the rapidly changing landscape of investment opportunities that finance solutions to climate change with positive community impact. Many DivestInvest Philanthropy signatories have started to embrace precisely such opportunities, whether as program-related investments or mission-related investments, across a diverse array of asset classes, from cash deposits in community development banks and credit unions to fixed income investments in the debt capital markets, private equity and venture capital, and real assets such as farmland, timberland, and real estate.

To provide diverse perspectives from the field, we draw upon the experiences of numerous DivestInvest Philanthropy foundations working in various geographies, with distinctive programmatic missions, and with different financial objectives. We include case studies of funders based in the Pacific Northwest, the Northeast, California, and the South, some with local and regional focus, others working nationally or internationally. Our subjects include family foundations seeking to invest across generations in perpetuity and "sunsetting" foundations that are spending down their endowment over much shorter time periods. Our analysis is also rooted in a review of approximately 50 different fossil-free investment funds and strategies that address both environmental and social considerations. (See Appendix A.) This is by no means meant to be a comprehensive presentation of all investment opportunities in community-oriented climate solutions, but these are among some of the most commonly cited strategies mentioned in the course of our interviews with DivestInvest Philanthropy foundations and other leading impact investors in the field. We provide more in-depth case studies of specific opportunities within each of the main asset classes we analyze.

Figure A. Fossil-Free Investment Types



Simply because an investment may be fossil-free does not mean that it proactively pursues either solutions to climate change or positive community impacts. Many divested portfolios, particularly in listed equities, are simply negatively screened for fossil-fuel companies, sometimes only the largest of them represented by the Carbon Underground 200. Some fossil-free investments may provide environmental benefits but with few social considerations taken into account; others may be dedicated community investments but with weak environmental features.

Most fossil-free investment opportunities fall into one of four broad types, presented in Figure A. "Fossil Free Investments" in the lower left-hand quadrant represent investments that are not exposed to fossil production or extraction, but do not explicitly target positive environmental or social impact. "Climate Solutions" in the upper left-hand quadrant represent investments that proactively target positive environmental benefits such as carbon reduction, natural resource conservation, or waste management, but do not explicitly pursue positive social impact or community benefits as part of the investment strategy; many pure-play cleantech strategies commonly

Figure B. Community-Oriented Climate Solutions Investment Themes

fall here. "Community Investments" in the lower right-hand quadrant represent investments that target positive community-level benefits, such as affordable housing, increased access to non-predatory capital, and improved healthcare, but do not have an explicit environmental impact component. Many community development financial institutions that have yet to develop strong environmental investing programs tend to fall into this type of fossil-free investment.

"Community-Oriented Climate Solutions" in the upper right-hand quadrant represent investments that actively and explicitly pursue both positive climate impacts and community-level social benefits. Some investments that fall within this category may not always dedicate equal weight to social and environmental factors, but all of the investment opportunities highlighted in this paper fall somewhere at the nexus between "Climate Solutions" and "Community Investments." All make the pursuit of positive environmental and social impacts explicit within their respective strategies, even though they may tilt more toward climate solutions than toward community resilience, or vice versa. We have isolated nine of the most common climate and community-related investment themes that funds in this category tend to pursue, from clean technology, renewable energy, and energy efficiency, to green building

Box 1. Investing in a Just Transition

"Transition is inevitable. Justice is not." —Quinton Sankofa, Movement Generation

Just transition is a conceptual framework describing a transition toward a low-carbon and climate-resilient economy that places social equity and economic justice at its center. It aims at ensuring that communities most vulnerable to both the economic restructuring associated with the low-carbon transition, and to the impacts of climate change itself, are not left behind. Governments, unions, and civil society groups around the world have endorsed the concept of a just transition. The 2015 Paris Climate Agreement takes into account "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."[1]

The just transition framework emerged from the trade union movement, and was designed to encompass a range of social interventions needed to protect livelihoods as economies shift to sustainable production. In a document prepared by the International Trade Union Confederation (ITUC), Just Transition is defined as a "tool the trade union movement shares with the international community, aimed at smoothing the shift towards a more sustainable society and providing hope for the capacity of a green economy to sustain decent jobs and livelihoods for all."[2]

Environmental and social justice organizations have expanded upon the labor movement's definition of a just transition, conceptualizing a broader shift away from the systems that led to the climate crisis and other environmental, social, and economic crises, and toward ones that enable shared prosperity. Movement Generation, a Bay Area-based nonprofit focused on environmental and economic justice, describes a just transition as "shifting from dirty energy to energy democracy, from funding highways to expanding public transit, from incinerators and landfills to zero waste, from industrial food systems to food sovereignty, from gentrification to community land rights and from rampant development to ecosystem restoration," insisting that the "workers and communities impacted first and worst must lead the transition to ensure it is just."[3]

1. "Paris Agreement." UNCCC, September 2015.
2. "A Just Transition: A Fair Way to Protect the Climate." ITUC, 2009.
3. "Movement Generation Just Transition Framework Resources," Movement Generation.

and affordable housing, sustainable transportation, water, farming, forestry, and resilient community development. (See Figure B.)

This diversity of approaches to community-oriented climate solutions represents very much the multiplicity of approaches to mission investing found in the philanthropic community. While some foundations approach their DivestInvest commitments principally as environmental grantmakers or climate funders, others have a stronger programmatic focus on community issues in a particular place. The investments that foundations make may therefore reflect their philanthropic priorities, tilting more strongly toward either community or climate impacts. Many, but not all, DivestInvest Philanthropy foundations have embraced community-oriented investments because they support a "just transition" (See Box 1.) for frontline communities most negatively impacted by climate change and the shift from fossil fuels to a clean energy economy, such as coal-mining communities in central and southern Appalachia or low-income, oil-refining communities. A growing number of family foundations grappling with the intergenerational responsibilities of philanthropic wealth and resources are also embracing community-oriented climate solutions as part of a broader approach to fostering values of "regenerative finance." (See Box 2.)

Foundations investing in these kinds of high-impact, community-oriented climate solutions have found both market-rate mission-related investments and concessionary opportunities that can be made as program-related investments (PRIs). Figure C provides a matrix of the multiple kinds of returns that investments may generate at the nexus of community resilience and climate solutions—from grants that generate no financial return to PRIs made from grant-making portfolios, typically with concessionary financial returns, to mission-related investments funded from the endowment corpus seeking market-rate returns. In this paper, we are particularly interested in opportunities that blend environmental and social returns—and generate a financial return on investment. However, it should be noted that creative capital stacks and "integrated capital" approaches, blending grants, technical assistance, PRIs, and mission-related investments across a range of asset classes, are often used in order to get deals done and generate multiple returns at a level that makes investments in community-oriented climate solutions feasible. In raising capital for its sustainable timberland fund in the Pacific Northwest, for example, Ecotrust Forest Management leveraged a $10 million PRI from the David and Lucile Packard Foundation, in the form of a low-interest loan, in order to secure more than $40 million in market-rate equity capital from private investors, including other foundations such as The Russell Family Foundation (TRFF).[5] As a place-based grantmaker in the Pacific Northwest, TRFF has also used grants and PRIs to help community development loan funds, such as Craft3, build greater investment capacity in the region. (See The Russell Family Foundation Case Study.)

Box 2. Regenerative Finance Core Values

Regenerative Finance, a collective dedicated to transferring control of capital to communities most affected by racial, climate, and economic injustice, has outlined core values that represent their vision for a healthy economy. They were developed in partnership with Movement Generation and the Climate Justice Alliance. These values influence Regenerative Finance's decisions on where to invest and are used to evaluate the success of their work.[4]

1. Builds Community Wealth
2. Shifts Economic Control
3. Democratizes the Workplace
4. Drives Social Equity
5. Advances Regenerative Ecological Economics
6. Re-localizes Primary Production and Consumption
7. Strengthens the Public Sector
8. Builds Movements and Power
9. Retains Culture and Tradition
10. Restores Indigenous Sovereignty and Promotes Decolonization
11. Restores Right Relationship within Ourselves and with Our Communities

4. "Regenerative Economy Values," Regenerative Finance.
5. Dennis Price, "Ecotrust Forest: Making the Math Work for Sustainable Timber in the Northwest," Impact Alpha, June 8, 2015; and The Russell Family Foundation, "Divest-Invest in the Pacific Northwest," Vimeo, September 16, 2014.

Ultimately, based on their programmatic priorities and financial objectives, foundations seeking investment opportunities in community-oriented climate solutions will need to assess what kinds of multiple returns they seek and whether trade-offs between environmental and social impacts or between impact and financial returns may be acceptable.

Figure C. Multiple Returns of Community-Oriented Climate Solutions Investments

	Environmental	Climate/ Community Nexus	Social
Market Rate (MRI)		◆	
Concessionary Rate (PRI)		◆	
Grantmaking		◆	

Opportunities across Asset Classes

A wide range of investment opportunities in community-oriented climate solutions have emerged across asset classes, themes, geographies, and risk/return profiles. Asset classes provide the organizational structure for the opportunities analyzed here, and Figure D illustrates the relative overall opportunity set for investable community-oriented climate solutions in the asset classes discussed in this paper: cash and cash equivalents, public fixed income, private debt, private equity and venture capital, and real assets. The figure provides a comparative estimate of the current capacity of the identified opportunities to absorb investor capital, based on the scale of assets under management and the number of strategies available within each asset class across all community-oriented climate solutions themes. As the figure highlights, private equity and venture capital, followed closely by private debt, provide the most readily available opportunities to pursue these strategies. However, ample opportunities also exist in cash, public bond fund strategies, and real assets across farmland, timberland, and real estate.

Figure D. Asset Class Opportunity Set for Community-Oriented Climate Solutions

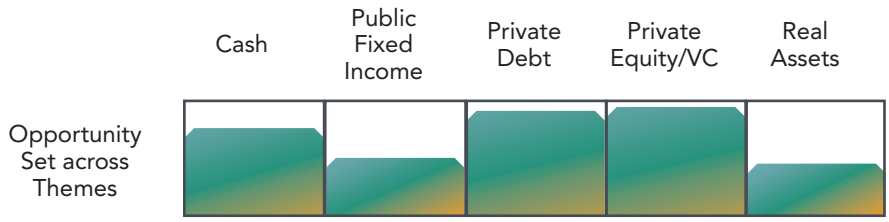
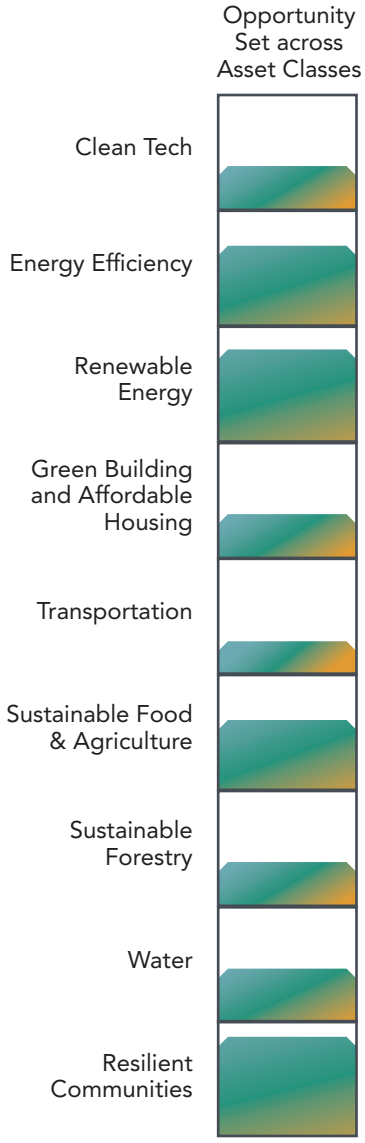


Figure E. Sector Opportunity Set for Community-Oriented Climate Solutions



It should be noted that public equity investments, a substantial allocation in most diversified foundation portfolios, have been deliberately excluded from the scope of this analysis. Although numerous listed equity investment strategies that incorporate environmental, social, and governance (ESG) investing factors may include criteria related to corporate community relations or climate change, we identified no fossil-free public equity strategies that explicitly focused on the nexus of community resilience and climate solutions. According to Ceres, which coordinates the Investor Network on Climate Risk and tracks climate-related shareholder proposals at publicly traded companies, more than 40 shareholder resolutions have been filed since 2011 on community impacts related to issues such as hydraulic fracturing, coal ash, and mountaintop removal coal mining, but these shareholder engagements were primarily with fossil-fuel companies or carbon-intensive power companies that would be excluded from most fossil-free investment strategies.[6] Among the leading shareholders to engage with publicly traded companies on these issues were As You Sow, Domini Social Investments, Green Century Capital Management, Miller/Howard Investments, the New York City and New York State Comptrollers' Offices, DivestInvest Philanthropy signatory Park Foundation, Trillium Asset Management, and numerous faith-based investors affiliated with the Interfaith Center on Corporate Responsibility. Some concerned investors are beginning to look more closely at the

6. See Ceres, Shareholder Resolutions database, 2011-2017.

Compton Foundation

Endowment Size: $56.9 million (as of 12/31/15)
Executive Director: Ellen Friedman
Investment Consultant: Sonen Capital

The Compton Foundation is a family foundation that focuses on climate change, conflict prevention, and women's reproductive justice. Partnering with Sonen Capital, a San Francisco-based impact investment management and advisory firm, has allowed Compton to develop a mission-aligned investment strategy that provides the foundation with the returns needed to sustain its programmatic work and to focus more of its time on grantmaking.

The Compton Foundation has a long history of applying negative screens to its portfolio, but it was not actively leveraging its investments for mission-aligned impact until 2012, when the foundation began working with a new investment advisor, Sonen Capitals, Compton's Executive Director, Ellen Friedman, noted that the board prefers working with firms that are dedicated to impact investment, rather than large banks or investment firms without core impact missions, because of the greater focus and creativity such firms are able to deliver. She also notes that thanks to Sonen, "when the DivestInvest campaign came along, we were already thinking about what we needed to do to help the transition to a more just and sustainable economy." Compton subsequently became one of the original 17 foundations to sign the DivestInvest Philanthropy pledge. Even though the foundation was already pursuing mission alignment in its investment portfolio, its involvement with the DivestInvest initiative has pushed it to think more concretely about how investing in climate solutions, and a just transition in particular, could be achieved. According to Friedman, "the Sonen model has been a wonderful match for a foundation like Compton because we can invest in a just transition—including industries and technologies that will drive the future economy—without having to do all of the spadework ourselves."

2012
- Up to this point, Compton's Investment Policy Statement contained general environmental and social screens
- Compton hires Sonen Capital as its investment advisor

2013
- Through a revised Impact Policy Statement developed with Sonen, Compton commits to 100% impact across investment portfolio
- Board commits to full divestment from fossil fuels within 5 years

2014
- Compton becomes one of the first 17 foundations to make the DivestInvest pledge

2015
- By Q2, Compton accomplishes divestment objective of negligible fossil fuel exposure, well ahead of its 5-year goal

2016
- Significant progress toward 100% mission alignment of investment portfolio: Compton's non-impact investments have declined to about two percent, and over 40 percent are thematically aligned high impact investments

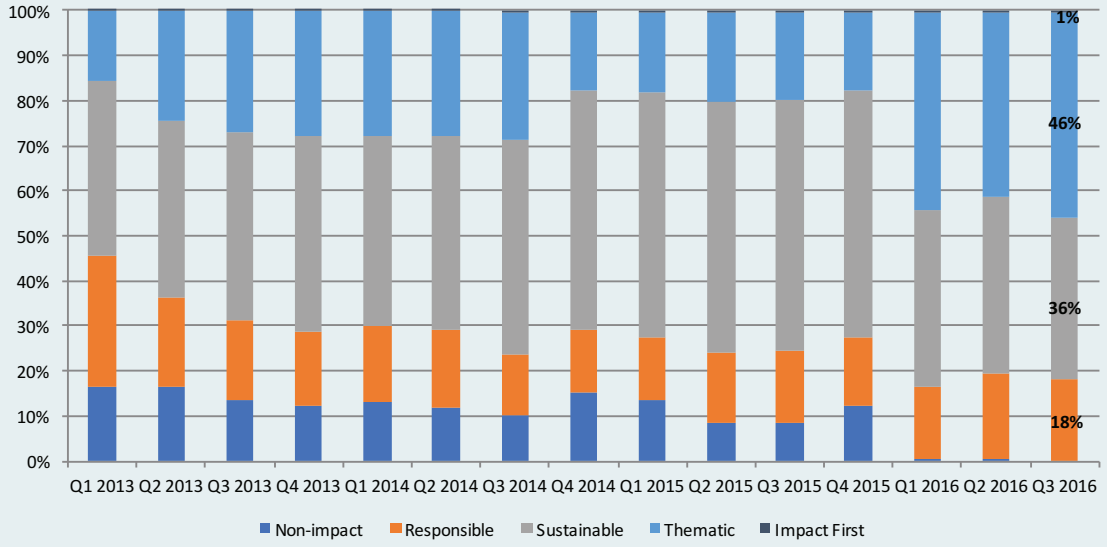
Sonen has helped Compton put together an impact investing strategy using a continuum that considers a range of impact opportunities across asset classes. Compton prioritizes investments with market-rate returns but has also made some targeted, concessionary impact investments, made from the foundation's endowment rather than as PRIs.

High Impact ↕ Low Impact

Investments Targeting:	Illustrative Asset Class Exposures *
• Protection of the Environment • Protection of Human Rights	• Notes and Other Debt Obligations • Private Equity • Real Assets
• Negative screens for Firearms, Military Weapons, Nuclear Power, GMOs, Tobacco • Protection of Animal Rights/Welfare	• Cash and Equivalents • Fixed Income • Equities
• Broad based Environmental, Social, and Governance (ESG) factors or alignment with sustainable practices	• Fixed Income • Equities • Hedge Funds

** Note: Illustrative only. Each specific investment within each asset class will be evaluated for its ability to reflect targeted impact objectives.*

Compton's Journey Towards Greater Portfolio Alignment

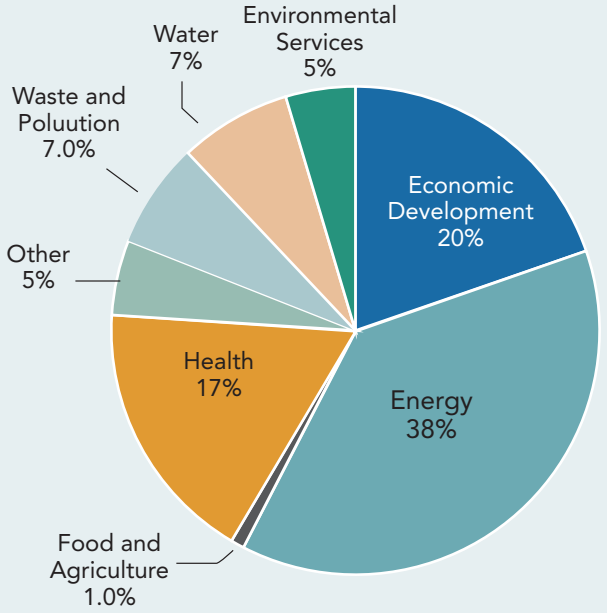


Over the past three years, Compton's unscreened "non-impact"investments have fallen to about two percent of the portfolio, while thematic, mission-aligned impact investments have grown to more than 40 percent of the portfolio, replacing the more broad-based sustainable investments the foundation had traditionally made.

Sonen's investment platform has also expanded Compton's impact globally. As an example, its real assets strategy includes global investments across clean power, sustainable timber, green real estate, sustainable agriculture and farming, and environmental infrastructure. For example, Compton's investment in **International Housing Solutions Fund II** (IHS)[7] provides green buildings and affordable housing for lower- and middle-income households in supply-constrained markets in South Africa. Compton's private equity investment in the **Africa Renewable Energy Fund** supports the development of small- and medium-scale renewable energy generation assets across Sub-Saharan Africa, providing both climate benefits through clean energy power generation and social benefits through increased energy access.[8]

Compton's investment in World Bank Green Bonds is financing climate mitigation and adaptation efforts in the developing world, such as wetland restoration in Bangladesh. The foundation is also supporting sustainable community development through the development of new infrastructure, including public transit and green affordable housing. Today the Compton Foundation's thematic exposures reach across all assets classes and a wide variety of themes, which combine to create a highly diversified impact portfolio.

Compton Foundation's Thematic Impact Breakdown



7. "International Housing Solutions," IHS Investments.
8. "African Renewable Energy Fund, Cornerstoned by AfDB and Sefa, Successfully Reaches Final Close at Its Target of U.S. $200 Million of Committed Capital," All Africa, September 22, 2015.

community impacts of renewable energy, particularly from the perspective of business and human rights in emerging markets, and some DivestInvest Philanthropy signatories such as the Swift Foundation and groups such as Transform Finance, Sonen Capital, and the Business and Human Rights Resource Centre have explicitly raised questions about community consent in the development of clean energy projects.[9] We anticipate future investor engagement with publicly traded companies participating in the rapidly expanding renewable energy supply chain, and as these approaches crystallize more explicitly as part of fossil-free listed equity investment strategies, public equities as an asset class can be integrated more fully into the opportunity set of community-oriented climate solutions.

Across the five other asset classes isolated here, the opportunities to target investment within the nine specifically identified themes of community-oriented climate solutions vary widely. Figure E provides a visualization of our analysis of the opportunity set across all five asset classes. Given the focus of this inquiry, Resilient Communities was understandably the most prevalent theme, but it should be kept in mind that most strategies, as we shall see, target multiple themes. Green Building and Affordable Housing, Energy Efficiency, and Renewable Energy were the three leading themes. Sustainable Food and Agriculture opportunities were also prevalent. Opportunities to invest thematically in climate solutions related to Water, Clean Tech, Sustainable Forestry, and Transportation were identified, but at lower levels than the other themes. Throughout the discussion of opportunities within each asset class, we include a figure similar to Figure E that represents the opportunity set across the nine themes for the particular asset class being analyzed.

The Russell Family Foundation

Endowment Size: $131 million (as of 12/31/15)
Executive Director: Richard Woo
Investment Consultant: The Threshold Group

One of the first DivestInvest signatories, The Russell Family Foundation's (TRFF) main philanthropic focus is environment sustainability, with an emphasis on the Pacific Northwest and the south Puget Sound region in particular. In 1999, the Russell family sold Frank Russell Company, a global asset management firm, to Northwestern Mutual Life. With part of the sale proceeds, Jane and George Russell created TRFF as a vehicle for their extended family to make positive contributions to various communities and causes. As part of its commitment to place and the environment, TRFF has expanded its mission-related investment portfolio over the past decade to include regional climate solutions.

In 2005, TRFF initiated its own mission-related investment strategy, which includes climate solutions geared toward a sustainable future. In the summer of 2013, the foundation began divesting its portfolio of fossil fuels and reinvesting in alternatives such as sustainable forestry, organic farming, and renewable energy in the Pacific Northwest. The decision helped tighten the alignment between TRFF's portfolio and its values. It also set the path for further refinements to the mission investment strategy. Soon after, in 2014, TRFF became one of the first foundations to join DivestInvest Philanthropy. The DivestInvest pledge dovetailed smoothly with TRFF's intent to pursue investments in clean energy and renewable resources.

2005
- TRFF begins mission investing

2013
- Begins to divest from "The Filthy Fifteen" (largest and dirtiest coal mining and coal-fired utilities)
- Less than 10% of portfolio is mission-aligned

2014
- Joins DivestInvest; divests from top 100 coal companies
- Starts reinvesting into fossil free strategies

2015
- Divests from top 100 oil and natural gas companies
- Conducts carbon audit to ensure the revised portfolio is not shifting into carbon-intensive industries like mining
- 15% of portfolio is mission-aligned

2016
- TRFF portfolio almost 100% divested from fossil fuels
- Significant reinvestments into low carbon climate solutions
- 56% of portfolio is mission-aligned

9. Jennifer Astone, "Swift Foundation Joins Divest-Invest," Swift Foundation, September 20, 2016; and "Community Consent and Clean Energy," Webinar, Transform Finance, September 6, 2016.

TRFF's approach to mission-related investment has five levels, much like a bull's-eye. Each level has a specific focus and greater payoff potential. The deepest level is also the most mission-aligned. All five levels have a fixed purpose, but they are dynamic in application.

In March 2016, TRFF's Investment and Audit Committee approved a revised Investment Policy Statement (IPS), which outlined multiple avenues the foundation can take in pursuit of aligning its investments with its mission. The IPS also included a provision that allows the foundation to focus on smaller investment opportunities that it views as "catalytic" with the potential for outsized benefit (part of Level 5). Also known as the "aspirational bucket," these investments—which include first-time funds, direct investments, and new business models that advance social and environmental goals—may be higher risk or have lower return expectations, but they are considered by the foundation to be truly innovative. Additionally, the IPS stipulates that these investments may target below-market rate returns or include PRIs, a strategy that allows the foundation to essentially nurture or "incubate" promising programs that support its mission. Over time, as they mature, these types of catalytic investments are reassigned to one of the other mission investing levels.

An initial focus of The Russell Family Foundation's investment strategy was removing fossil fuels and carbon intensive companies from its portfolio. However, as part of its shift to reinvestment, the foundation has increasingly been seeking place-based investing opportunities with a focus on climate solutions that benefit both local communities and the environment.

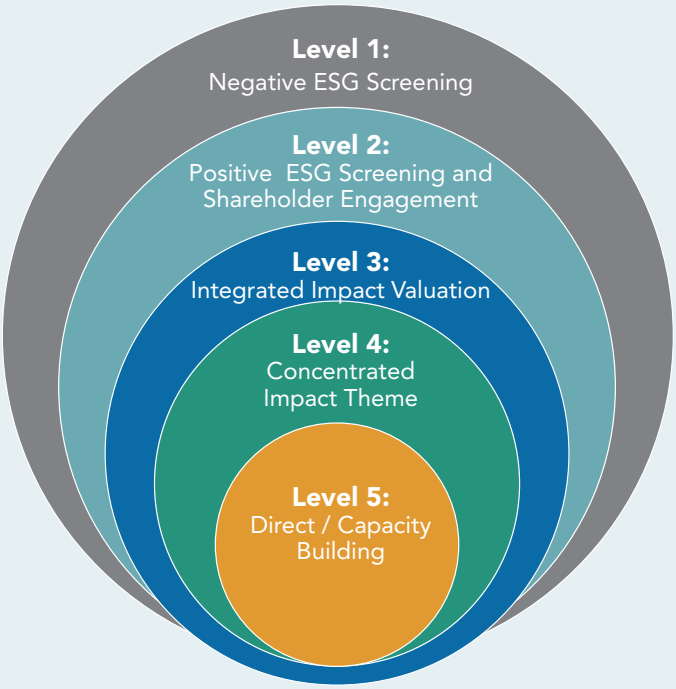
Starting in 2015, TRFF has invested in **Agriculture Capital Management**, which specializes in sustainable farming enterprises from planting to market. With a focus on the West Coast, its investments have included growing citrus in California, blueberries and hazelnuts in Oregon, and table grapes in Washington. The foundation has also invested in **Ecotrust Forest Management**, which acquires timberland in the Pacific Northwest and converts it to sustainable management. (See Ecotrust Forest Management Case Study)

Another organization that TRFF supports is Craft3, a nonprofit community development financial institution (CDFI) that provides loans to businesses and families throughout Oregon and Washington (See Craft3 Case Study). TRFF's relationship with Craft3 has been evolving for more than a decade. In 2003, Craft3 applied for a grant from TRFF to help launch the Clean Water Loan Program, which helps families and small businesses repair or replace failing septic systems with no money down. In many cases, these loans are a lifeline for households and businesses. At the same time, these loans also keep wastewater pollution from entering critical waterways, thus protecting public health, groundwater quality, and the livelihoods of local fishermen.

TRFF provided an initial grant to help cover the one-time, start-up marketing and outreach expenses, as well as the initial set up of administrative systems. With additional support from Pacific County and the Puget Sound Action Team (PSAT), Craft3 was able to establish a revolving fund with enough capital to allow the CDFI to offer deferred interest loans if necessary. Since awarding that initial grant, TRFF has been a champion of the project, and has connected Craft3 with key funding partners that also benefit from the project, such as local health departments and other foundations. TRFF also provided a mission-related investment to help Craft3 grow the project, and its scope has expanded to include regions of both Washington and Oregon.

For TRFF, this is the story of a model grant recipient. The Clean Water Program targets a fundamental need and delivers a practical, tangible solution. It began with philanthropic support and evolved to prove how public and private capital can be used creatively to create a self-sustaining program. To date, the Clean Water Loan program has provided $13.4 million in loans to 617 homeowners while also treating 75 million gallons of water.

Impact Investing across Asset Classes

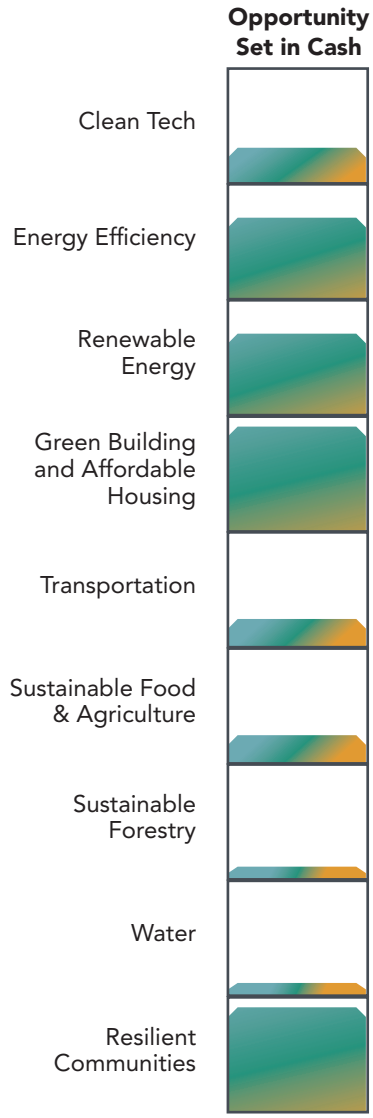


Cash and Cash Equivalents

Philanthropic foundations have increasingly recognized cash as an important asset class for mission-related investing, in part due to the long-standing track record of mission-aligned community development banks and credit unions, often working in underserved low- and moderate-income communities.[10] For DivestInvest Philanthropy signatories, growing numbers of CDFI-certified banks and credit unions are embedding sustainability into their internal operations and lending programs, while other local and mission-oriented banks have emerged with a strong focus on environmental impact themes.[11] Foundations can use these depository institutions for managing their cash through money market, checking, and savings accounts, as well as certificates of deposit. Depository accounts like these provide low-cost capital to support innovative lending programs often in highly targeted geographies, making them particularly good candidates for place-based or regionally-focused funders.

Like other depository institutions, mission-oriented community and sustainability banks and credit unions provide government-insured guarantees covering the first $250,000 of any cash deposit, making them safe, highly liquid, low-risk investments. The growing number of banks and credit unions with environmentally focused lending programs now makes it relatively easy for foundations to develop laddered certificates of deposit across multiple institutions. Programs such as the Certificate of Deposit Account Registry Service (CDARS) also allows institutions with larger cash management needs to tap into FDIC insurance for multi-million-dollar accounts, managed through a single bank of choice.

CDFI-certified community development credit unions such as **Self-Help Credit Union**, headquartered in Durham, North Carolina, and **Alternatives Federal Credit Union**, in Ithaca, New York, now have dedicated Green Certificates of Deposit that allow investors to target their deposits to environmentally sustainable lending programs. Although some



Box 3. Global Alliance for Banking on Values
Principles of Sustainable Banking

1. Triple bottom line approach at the heart of the business model
2. Grounded in communities, serving the real economy, and enabling new business models to meet the needs of both
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved
4. Long-term, self-sustaining, and resilient to outside disruptions
5. Transparent and inclusive governance
6. All of these principles embedded in the culture of the bank

10. Valerie Berezin, Lisa Hagerman, and David Wood, "Cash as a Mission-Related Investment," Initiative for Responsible Investment, Harvard University, February 2011; and "Carry Your Cash: Supporting Community Finance with Cash Deposits," Confluence Philanthropy, 2015.
11. Ryan Honeyman, "Improving Social and Environmental Sustainability: A Credit Union Assessment and Comparison," Filene, February 10, 2014.

CDFI-certified community development banks such as the **Beneficial State Bank** may not provide a dedicated environmental depository product per se, they instead integrate a triple-bottom-line approach across all their lending. Based in Oakland, California, with branches across California and Oregon, Beneficial State targets transformative sectors such as sustainable food, fisheries, and agriculture, clean technology, renewable energy, and green chemistry, upcycling and recycling, natural resource-based rural development, and resource efficiency in the built urban environment.

Beneficial State Bank is among a growing number of banks across the globe that have joined the Global Alliance for Banking on Values. Members of the Global Alliance commit to placing triple-bottom-line approaches at the heart of their business model. (See Box 3.) Other Alliance members in the United States include the first US bank to divest—**Amalgamated Bank**, a labor friendly bank in New York and Washington, DC, with growing environmental lending programs; **City First Bank of DC**; **First Green**

Cash: Self-Help

Self-Help is a family of community development financial institutions headquartered in Durham, North Carolina. Since its founding in 1980, Self-Help has grown to include two credit unions, a loan fund, and a nonpartisan research and policy organization with a mission to create ownership and economic opportunity for low-income individuals and communities. Self-Help and its affiliates provide financing, financial services, and technical support for underserved communities, focusing on low-income, low-wealth, and rural and minority communities across North Carolina, California, Chicago, and Florida.

Self-Help's lending activities finance a range of businesses and projects with positive environmental and climate-specific impacts. To date, Self-Help has made $353 million in direct loans to a variety of sustainable businesses and non-profits. These investments include $175 million for renewable energy (mostly solar farms), $144 million for the construction and rehabilitation of energy efficient buildings and homes, $34 million for increasing home energy efficiency, $15 million to recycling businesses, and $15 million for healthy food systems. Through its lending programs, Self-Help has financed the building of 235 energy efficient homes with access to transit and infrastructure. Its investments in renewable energy have created 2,625 construction jobs in the clean energy sector, and averted over 6,800 metric tons of greenhouse gases.

An illustrative example of Self-Help's commitment to investing in community-oriented climate solutions is its partnership with Craft3, a CDFI based in the Pacific Northwest that focuses over 20 percent of its lending on sustainable businesses and projects. Through this partnership, **Craft3** (working with Enhabit) provides energy-efficiency loans to residents of Oregon, which are repaid through an on-bill repayment (OBR) system that allows homeowners to make loan payments through their monthly utility bill. To date, Self-Help has purchased $22 million in OBR loans from Craft3, increasing liquidity for future lending capacity and helping 2,460 Oregon homeowners finance a total of $23.1 million in energy-efficiency upgrades. Overall the program has catalyzed more than $62 million of local economic development, averted more than 63,000 metric tons of greenhouse gasses, created jobs for local contractors, and reduced home energy use, all while pioneering an innovative model for financing energy-efficiency.[12]

Fast Facts:

- **Firm:** Self-Help
- **Strategy:** Green CD
- **Target Geography:** United States

Relevant Themes:

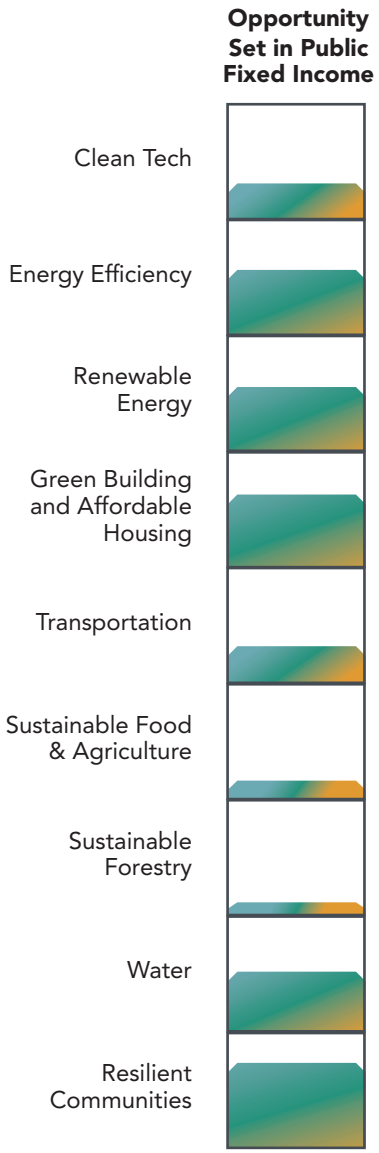
- Energy Efficiency
- Renewable Energy
- Green Building and Affordable Housing
- Transportation
- Resilient Communities

Investors interested in sustainable community development can target their deposits through Self-Help's **Green Certificates of Deposit (CDs)**. Green CDs support lending to projects and businesses in underserved communities that conserve natural resources and reduce carbon emissions. Self-Help's CDs are federally insured up to $250,000 in each of Self-Help's credit unions, and offer investors 0.25 to 1.8 percent over terms ranging from three months to five years.

Through Self-Help's savings accounts and CDs, investors can safely activate their cash and cash equivalent assets in pursuit of community-oriented climate solutions.

12. "CDFIs Craft 3, Self Help Complete Second On-Bill Repayment (OBR) Loan Sale," Press Release, Self-Help, December 2, 2015.

Bank in Orlando, Florida; **Southern Bancorp** in Arkansas and Mississippi; **Sunrise Banks** in Minnesota; and **New Resource Bank** in San Francisco. In addition to committing to the Global Alliance, New Resource Bank provides "Impact checking and money market accounts" and a series of "Impact CDs" targeting three areas: clean energy, organic and natural products, and nonprofit organizations. Organizations such as the Global Alliance, the National Community Investment Fund, the National Federation of Community Development Credit Unions, and the CDFI Fund of the US Treasury Department provide investors with valuable resources for identifying opportunities to use sustainable, local, and community development banks and credit unions as financial institutions for managing cash investments.



Public Fixed-Income

Opportunities to invest in climate solutions through the public debt capital markets have rapidly grown over the last several years, particularly with the development of green bonds and other clean energy bond finance instruments. Numerous fixed-income asset managers now manage fossil-free bond funds that integrate both environmental and community considerations, and many DivestInvest Philanthropy signatories have begun to embrace these opportunities. Public fixed-income as an asset class remains relatively low-risk, but it has the potential to generate measurable impact at scale. Although generally not as liquid as cash equivalents in federally guaranteed depository institutions, fixed-income investments in the public debt markets nevertheless provide stable income, predictable returns, and both liquidity and transparency when it comes to the use of proceeds from transactions.[13] Green and clean energy bonds in particular can be readily integrated into a foundation's DivestInvest strategy as program-related investments, mission-related investments, or place-based investments, particularly to finance green building, renewable energy projects, energy efficiency, and water infrastructure.[14]

According to the International Capital Markets Association, a green bond is defined as a bond instrument where proceeds are used exclusively for projects that provide demonstrable environmental benefits, specifically in areas such as renewable energy, energy efficiency, pollution prevention and control, sustainable natural resource management, biodiversity conservation, clean transportation, sustainable water management, and climate change adaptation. The Green Bond Principles, which the ICMA administers, are voluntary guidelines that recommend a clear and transparent process for documenting the use of proceeds, evaluating and selecting green projects, managing the proceeds, and reporting to investors and the public.[15] Because they are voluntary, the Green Bond Principles do not provide strict requirements related to the nature of projects ultimately financed. DivestInvest Philanthropy signatories should therefore keep in mind that green bonds may not always deliver mission-aligned climate solutions simply because they carry a green label. Indeed,labeled green bonds need not even be "fossil-free"; some have been issued by carbon-intensive energy companies. In other cases, bonds that directly finance climate solutions or renewable energy may not carry a green label. And even when they explicitly finance clean

13. Marina Leytes and Sam Bonsey, "Fixed Income and Impact Investing," TheImpact, March 2016.
14. Joshua Humphreys, Christi Electris, and David Roswell, "Fixed Income Investing in Climate Solutions: Green Bond Opportunities for Philanthropic Foundations," Clean Energy Group, Confluence Philanthropy, and Croatan Institute, June 2015.
15. "Green Bond Principles, 2016: Voluntary Process Guidelines for Issuing Green Bonds," International Capital Markets Association, June 16, 2016.

Public Fixed Income: Community Capital Management

Community Capital Management (CCM) is a privately-held, SEC-registered investment advisor that has been engaged in fixed-income impact investing since 1999. Based in Weston, Florida, with offices in Boston and Charlotte, North Carolina, CCM is national in scope and provides clients the opportunity for targeted impact investing. With a focus on community development and green building, the firm's investments have led to climate-conscious solutions in neighborhoods across the country.

Since CCM's inception, the firm has invested $7.2 billion into community development initiatives, including 340,000 affordable rental housing units, 15,400 mortgages for low and moderate-income families, $312 million in enterprise development and job creation, $363 million in economic development (i.e., environmental sustainability, neighborhood revitalization, healthy communities), $803 million into programs for homeownership and down payment assistance, and $33 million into affordable healthcare and rehabilitation.

One of CCM's flagship products is the **CRA Qualified Investment Fund**, an institutional open-end, no-load mutual fund that invests in high-quality securities, including multifamily agency mortgage-backed securities (MBS), single family agency MBS, taxable municipal bonds, and small business administration pools/loans. The fund seeks investments that qualify under the Community Reinvestment Act of 1977, which was created to encourage banks to help meet the needs of low and moderate-income borrowers in underserved neighborhoods. With a portfolio composed primarily of government and AAA-rated bonds, CCA's CRA Fund "seeks to generate above-average, risk-adjusted returns with lower volatility and lower credit risk than its benchmark," the Barclays US Aggregate Bond Index. CCM allows its institutional clients to target specific geographies or specific impact initiatives; the firm then selects fixed-income securities that match these preferences and provides reports detailing both the financial and community impact of these investments. Specific investments are also searchable on the CRA Qualified Investment Fund's website, by location or bond type. This customization allows investors to target their investments in frontline communities most affected by climate change.

One example of CCM's investment impact is Via Verde, a Gold LEED certified mixed-use facility located on a brownfield in the South Bronx of New York. It includes 222 mixed-income residential units, 7,500 square feet of retail and community space, and 40,000 square feet of green roofs and other open space for residents. Via Verde was a $98.8 million project financed by a capital stack of grants, loans, tax credits, and other funding mechanisms with the goal of encouraging a mix of rental and home ownership while also addressing community health issues such as childhood asthma and obesity. CCM participated in two phases of financing by purchasing a portion of the taxable bonds issued by the New York City Housing Development Corporation in 2013 and 2015.

Fast Facts:

- **Firm:** Community Capital Management
- **Strategy:** CRA Qualified Investment Fund (Institutional Shares)
- **Target Geography:** National, but can be tailored for institutional investors

Relevant Themes

- Sustainable Food and Agriculture
- Resilient Communities
- Green Building

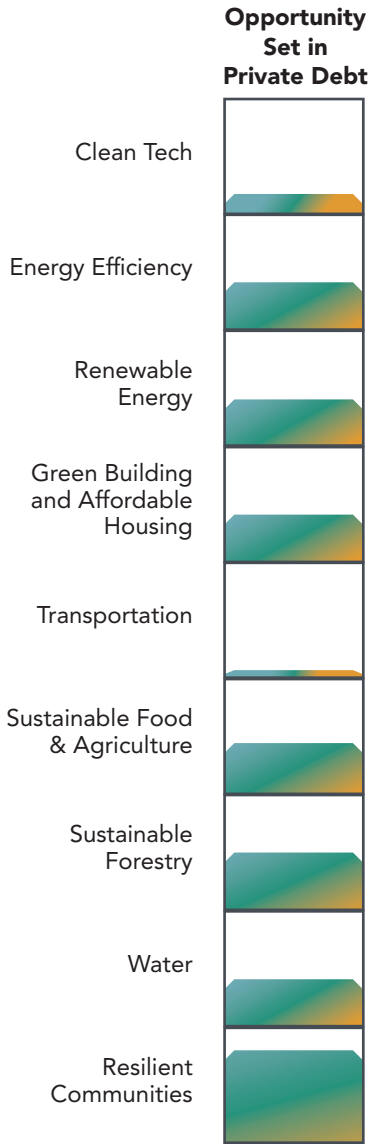
energy investment or other climate solutions, green bonds may simply lack a strong community focus or social dimension. Blackrock Investment Institute, for example, recently published the results from a low-carbon bond strategy with a strong tilt toward clean technology and green bonds, but the rules governing the strategy had no social considerations included in it whatsoever.[16]

Foundation investors therefore need to exercise care in determining what fixed-income opportunities best sit at the nexus of climate change and community resilience. In order to determine whether fixed-income investments are delivering climate solutions with positive social and community impacts, it is incumbent on investors to work closely with highly skilled fixed-income investment managers who can rigorously assess potential bond investments for their social and environmental impacts as well as their credit quality

16. Poppy Allonby, et al., "Adapting Portfolios to Climate Change: Implications and Strategies for All Investors," BlackRock Investment Institute, September 2016.

and character. Increasing numbers of fixed-income asset managers are developing dedicated green bond funds or fossil-free credit strategies; other are integrating green bonds into existing sustainable investing funds. Among the most active firms in this arena are Breckenridge Capital Advisors, Calvert Investments, Columbia Threadneedle, Everence, Generation Investment Management, Mellon Capital Management, Shelton Capital, SNW, Standish Mellon, State Street Global Advisors, Trillium Asset Management, and Walden Asset Management. Investors that care about community matters and climate change should ensure, at a minimum, that social considerations are holistically incorporated into fossil-free, fixed-income asset management.

For those interested in place-based investment opportunities, long-standing community development bond fund managers such as **Community Capital Management** and **RBC Global Asset Management's Access Capital Strategies** can geographically target their investments at state, county, or city levels in order to achieve both positive environmental benefits and reinvestment often in low- and moderate-income communities. These managers invest in debt instruments such as taxable municipal bonds that finance brownfield redevelopment, conservation, and adaptive reuse; agency-backed commercial mortgage-backed securities financing green, multi-family affordable housing, healthcare, senior, and community centers, and urban and rural mixed-use developments; and other asset-backed securities and corporate sustainability bonds. One of the largest groups of labeled green bonds are issued by the World Bank Group and other international development banks financing climate adaptation and mitigation projects in emerging markets such as Africa, Asia, and Latin America. Funders with international programs may find fixed-income investment opportunities through development agency green bonds, but most of these investments are low-yielding, tax-exempt bonds designed with the needs of large pension funds in mind. Foundations will therefore need to ensure that their own mission-related investing criteria and financial objectives align adequately with the social and environmental criteria and credit profile underlying international green bonds issued by development finance institutions.



Private Debt

A large concentration of investment opportunities in community-oriented climate solutions is found in the private debt asset class. Private market debt comprises various forms of debt financing for small and medium-sized companies, including direct lending, mezzanine, venture debt, and distressed debt. The confluence of increased bank regulation and subsequent disintermediation, a growing demand for capital from US and European mid-market companies, and low yields on traditional fixed income investments, have led to the rise of private debt as a mainstream institutional asset class. With many larger banks increasingly shying away from lending to small and medium sized businesses and projects, particularly in underserved, low-income communities, private debt is filling a critical gap at the nexus of climate solutions and community investment.

Private debt investment opportunities range from promissory notes issued by community development financial institutions that are investing debt capital in a diverse portfolio of climate solutions in underserved US markets, to funds investing venture and catalytic debt in sustainable food and agriculture businesses in Latin America, to direct lending in cooperative solar and energy efficiency businesses. Rates of return in this asset class range widely from concessionary, zero-interest loans to above-market, double-digit returns generated through an illiquidity premium and the complexity associated with higher barriers to entry.

Private Debt: Craft3

Craft3 is a nonprofit Community Development Financial Institution (CDFI) lender founded in 1994 with a mission of strengthening economic, ecological, and family resilience in Pacific Northwest communities. Craft3 provides loans to businesses, nonprofits, and individuals, including those without access to traditional financing, and offers borrowers technical expertise, access to networks and other forms of support. Craft3 has an explicit triple-bottom-line mission, offering investors financial, social, and environmental returns on their investments. Since inception, Craft3 has invested more than $399 million in over 4,800 people and businesses throughout Oregon and Washington.

Craft3 is one of a few CDFIs with an explicit focus on addressing climate change in its community development work. Nearly 20 percent of Craft3 transactions by dollar amount have funded commercial clean energy loans, residential energy efficiency loans, and clean water loans. Craft3 loans have averted or sequestered over 61,000 metric tons of CO_2 equivalent, conserved 2.6 million BTUs of energy, treated, conserved, or developed nearly 150 million gallons of water, conserved over 40,000 acres of land, and catalyzed over $19 million in green businesses. Craft3 loans have funded 391 entrepreneurs of color and woman-/immigrant-/veteran-owned businesses, created or retained over 11,000 jobs (2,923 of which are in high-poverty areas), assisted over 93,000 low-income households, and catalyzed over $1.2 billion in local ownership.

One of Craft3's exemplary projects is the Coastal Energy Project, a 4-turbine, 6-Megawatt wind farm that provides energy to the rural community of Grayland, Washington, and $400,000 in revenue to the Coastal Community Action Program, a nonprofit that provides critical services and resources to low-income families of Grayland and neighboring counties. Craft3 partnered with a larger bank on a $3.2 million New Markets Tax Credit investment in the Coastal Energy Project and provided an additional $475,000 loan, both of which allowed the $15.7 million project to move forward.

The Community Impact Investment Note (CIIN) is one of several vehicles that capitalizes Craft3's revolving loan fund, from which it finances loans to entrepreneurs, nonprofits, individuals and others in Oregon and Washington who do not normally have access to credit. Offered as unsecured, senior debt with general recourse to Craft3's balance sheet, CIIN's investment risk is not tied to a single loan, but rather spread across an entire portfolio managed by Craft3. The CIIN earns investors a fixed rate of return ranging from 1.25 to 3.00 percent on terms of 1 to 5 years. Investments are cycled through several loans during a term, allowing investors increased impact. As of September 1, 2016, CIIN was 40 percent subscribed by more than 60 investors, including individuals, families, foundations, religious institutions, and a health care institution.

Craft3 is AAA2 rated by Aeris, a leading third-party assessor of CDFIs, signifying that their financial and portfolio management and impact performance exceed industry standards.

Fast Facts:

- **Firm:** Craft3
- **Strategy:** Craft3 Community Impact Investment Note
- **Target Geography:** Pacific Northwest

Relevant Themes

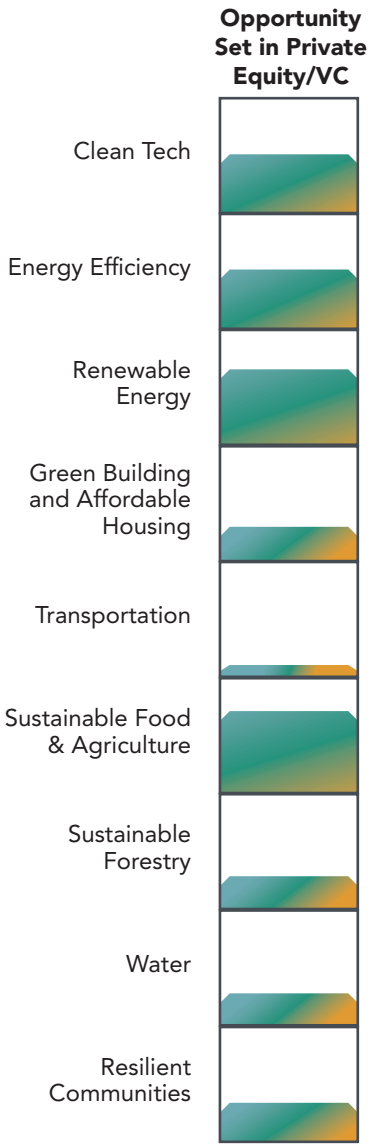
- Renewable energy
- Energy Efficiency
- Sustainable Food and Agriculture
- Water
- Green Building
- Community development

Loan funds administered through CDFIs represent one of the more common, impactful, and safe ways to invest debt capital in community-oriented climate solutions. Growing numbers of CDFIs are integrating climate mitigation and adaptation efforts into their lending portfolios. The Pennsylvania-based **Reinvestment Fund**, for example, has invested over $85 million in climate solutions over the past two decades, ranging from renewable energy projects and energy efficient building design to local food systems and transit-oriented development. **Coastal Enterprises, Inc.** (CEI), a CDFI based in Maine, is supporting the development of new income streams for fishing families as fisheries decline due to changes to the temperatures and salinities of the Gulf of Maine as a result of climate change. Some CDFIs, like the **Mountain Association for Community Economic Development** (MACED) and the **Natural Capital Investment Fund** (NCIF), are investing in regions on the frontlines of a just transition. MACED supports the growth and diversification of the local economies of Kentucky and Central Appalachia, regions that have been hit hard by the transition away from coal. NCIF, a CDFI loan fund based in West Virginia and affiliated with the Conservation Fund, lends to small- and

medium-sized enterprises that are responsibly using natural resources and creating lasting jobs and community wealth primarily in rural, underserved regions across Appalachia and the South. Local food and agriculture systems, energy and water conservation, recycling, and other natural capital-based community services are the primary themes guiding NCIF's lending portfolio.

CDFIs provide investors with safe, predictable returns and exposure to a diverse portfolio of loans to underserved populations, thereby maximizing impact and minimizing internal due diligence requirements for asset owners. The most common way to invest debt capital in CDFIs is through promissory notes—often unsecured senior debt with general recourse to the CDFI's balance sheet—that offer low single-digit returns over varying terms. The Opportunity Finance Network offers a CDFI Locator that allows investors to filter results by a number of criteria, including region, CDFI type, and lending type.[17]

Private debt investment opportunities in community-oriented climate solutions with higher rates of return exist as well. **ARENA Investments LLC** is an SBA-registered Small Business Investment Company that focuses on making collateralized loans to clean energy small businesses in the US. ARENA is currently raising its first fund, which is targeting returns in the high double digits. **Fresh Source Capital** is an investment firm that invests debt capital in growth-stage companies in the Northeast that are rebuilding local, regional food systems. Fresh Source is currently raising its second fund, which will issue subordinated debt loans targeting high single-digit returns over the eight-year life of the loan.



Foundations with the necessary internal capacity and expertise can also invest debt capital directly into mission-aligned small businesses, including cooperative businesses, that are providing climate solutions in targeted communities. (See Cooperatives Businesses.) By lending directly to small businesses through secured or unsecured loans, foundations can serve as a lender of last resort, filling a gap in the traditional lending market by providing access to capital that is often cheaper, more patient, and more flexible than other financial intermediaries. Direct lending also gives foundations greater agency over the impact of their debt investments by choosing the businesses most aligned with their own mission-related investing objectives. Most worker cooperative conversions are primarily financed by debt that is collateralized with the businesses' assets or inventory, and terms are negotiated between the investor and cooperative.

Private Equity and Venture Capital

Foundations can scale positive climate and community impacts while earning market-rates of return through private equity and venture capital financing of seed-stage, small and medium-sized businesses providing climate solutions, particularly in underserved communities.

A recent report by the Global Impact Investing Network (GIIN) and Cambridge Associates showed that "private funds with an impact focus can earn returns that are comparable or superior to similar funds without an impact focus."[18] The December 2015 Paris Agreement on climate change was a policy signal for investors, who are increasingly mobilizing private capital to fill the approximately $1 trillion per year financing gap needed

17. Opportunity Finance Network, CDFI Locator, at http://ofn.org/cdfi-locator.
18. Jessica Matthews and David Sternlicht, "Introducing the Impact Investing Benchmark," Cambridge Associates and the Global Impact Investing Network, 2015; and Susan Balloch, "How Private Equity Is Heeding the Call of Impact Investing," Institutional Investor, March 8, 2016.

Private Equity and Private Debt:
EcoEnterprises Fund

EcoEnterprises Fund invests growth capital in small businesses across Latin America that contribute to building resilient local economies while protecting threatened, biologically diverse ecosystems, thereby helping mitigate the effects of climate change. EcoEnterprises Fund utilizes mezzanine, quasi-equity, and long-term debt instruments to drive growth in niche sectors such as sustainable agriculture, agro-forestry, sustainable aquaculture, ecotourism, certified forestry, and wild-harvested products. The fund maximizes returns by identifying and then strengthening portfolio winners in terms of financial upside and environmental and social benefits.

An early pioneer in the impact investment sector, EcoEnterprises Fund was incubated at The Nature Conservancy in 1998 and launched its first fund, Fondo EcoEmpresas, S.A., in 2000. One of the first venture portfolios of its kind, Fondo EcoEmpresas, S.A. invested $6 million in 23 businesses in 10 countries across Latin America that were first movers in their respective sectors, from organic shrimp to organic spices, FSC-certified furniture to biodynamic flowers, and acai juice smoothies. EcoEnterprises Fund launched a second fund, EcoEnterprises Partners II, L.P., in 2010 and has fully deployed $35 million in 10 companies, several of which have grown from $50,000 to $40-50 million per year in sales. EcoEnterprises Fund is currently raising capital for a third fund, which is set to launch in 2017.

EcoEnterprises Fund employs a comprehensive evaluation system to ensure that its investments work to protect ecosystems, provide alternative livelihoods for local people, and bring benefits to rural communities. Each company is required to go through a rigorous environmental screening process, including the application of a monitoring and evaluation tool developed by the fund. The process includes integrating specific environmental and social standards for each target industry, such as criteria on biodiversity conservation, sustainable use, and community involvement.

EcoEnterprises Fund's portfolio companies rely heavily on local engagement to source, manufacture, and sell their products. Since inception, EcoEnterprises Fund's investees have generated over 4,500 jobs, supported nearly 25,000 small suppliers, benefited over 300 local groups, and impacted the lives of over 180,000 local people. EcoEnterprises Fund's portfolio companies have also conserved over 7.9 million acres of land, and the fund is in the process of launching a climate change action plan to work with portfolio companies on improving climate mitigation and adaptation efforts. EcoEnterpirses Fund is an all-woman led firm.

Fast Facts:
- **Firm:** EcoEnterprises Fund
- **Strategy:** Fund III
- **Target Geography:** Latin America

Relevant Themes
- Sustainable Food & Agriculture
- Sustainable Forestry
- Resilient Communities

to fulfill climate pledges.[19] In 2016, the UN Principals for Responsible Investment (UNPRI) partnered with the Institutional Investors Group on Climate Change (IIGCC) to update their 2010 guidance on climate change for private equity investors, which highlights the growth in opportunities to invest in emerging social and environmental needs across sectors.[20] The US SIF Foundation's 2016 Report on US Sustainable, Responsible and Impact Investing Trends identified 112 US domiciled private equity and venture capital funds that invest in clean technology, and 56 were identified as broadly incorporating climate change criteria into investments. Additionally, 14 of these funds are CDFI-certified community development venture capital (CDVC) funds.[21] CDVC funds provide equity capital to businesses and operate much like traditional venture capital funds, seeking to provide market-rate financial returns, but with the additional mission of creating good jobs, wealth, and entrepreneurial capacity in underserved communities.[22] Several CDVCs invest in businesses with positive climate impacts, including **Coastal Enterprises, Inc. (CEI)'s Community Ventures Fund** and **Boston Community Capital's Venture Fund**.

19. "Energy and Climate Change: World Energy Outlook Special Briefing for COP21," International Energy Agency, 2015.
20. "A Guide on Climate Change for Private Equity Investors," The Institutional Investors Group on Climate Change and UN PRI, May 26, 2016.
21. "Report on US Sustainable, Responsible, and Impact Investing Trends 2016," US SIF Foundation, November 2016.
22. "The Community Development Venture Capital Alliance," CDVA.

Other social venture capital firms that are investing in companies with both compelling social and environmental impacts include **SJF Ventures** and **Renewal Funds**. SJF Ventures, one of the oldest and most experienced impact investment venture capital funds in the country, has made 51 investments across three funds over the past 17 years, and currently manages an investment portfolio of $135 million. After beginning as a CDVC fund, SJF now invests in high impact, scalable companies operating in the clean energy, reuse, food, education, and workforce development sectors. SJF seeks investment opportunities in geographies with less investment activity; over 90 percent of the firm's investments are located outside of Silicon Valley, the San Francisco Bay Area, New York, and Boston regions—the nation's densest clusters for venture capital. While not all of the companies in SJF's portfolio fall into the community-oriented climate solutions category, the firm is one of few in the venture capital space that has an explicit social impact mission in addition to pursuing environmental benefits. SJF's portfolio companies that provide both positive social and climate impacts include Recology CleanScapes, a sustainable solid waste and recycling collection and streetscape management company; Community Energy, a renewable energy company that sells clean power directly to commercial and institutional customers nationwide; and Vital Farms, one of the nation's leading provider of pasture-raised eggs and poultry products. In addition to impact investing, SJF also advocates for sustainability policies, including energy efficiency and net metering policies in North Carolina, California, and Virginia in partnership with portfolio companies Community Energy and NEXTracker.

Renewal Funds is a Vancouver, Canada-based mission-focused venture capital firm that invests in the United States and Canada. Renewal makes both equity and debt investments, targeting above-market rates of return in the organic food, green product, and environmental innovation sectors. Portfolio companies that have provided community-oriented climate solutions include Better Energy Systems, a producer of portable solar rechargeable power and lighting devices; Alter Eco, which sources organic, fair-trade and carbon-neutral products from 200 farmer cooperatives in developing countries; and Seventh Generation, a leading consumer brand of recycled, non-toxic, and eco-friendly household goods and cleaning supplies with a strong commitment to climate, community, and social justice.

Both SJF and Renewal measure portfolio impact through the Global Impact Investment Rating System (GIIRS) and B Impact Assessment, and they are also committed to mission-aligned exits.

Another early pioneer in the impact investment space, **EcoEnterprises Fund**, invests growth capital in small businesses across Latin America that contribute to building resilient local economies while protecting threatened, biologically diverse ecosystems, thereby helping mitigate the effects of climate change. (See EcoEnterprises Fund Case Study)

Investors interested in the local food and farm economy in specific states or regions have been connecting through Slow Money, a national organization of individuals and groups who are interested in investing directly in local food enterprises. They organize local, regional and national meetings where food and farming entrepreneurs can pitch directly to interested investors, who are often willing to invest patient capital on friendly terms. Although most Slow Money investments are made as debt financing from individual lenders, about 20 percent of Slow Money investments have been made through equity capital.

Private equity funds with a regional or place-based focus are beginning to take root. **Fresh Source Capital**, discussed above in the Private Debt section, also makes equity investments in sustainable food and agriculture companies in the Northeast. Examples of community-oriented solutions in Fresh Source's portfolio include Spoiler Alert, a company that provides value-added services that enable food businesses, farms, and to nonprofits create or recover value from surplus food and organic waste, and Recover Green Roofs, a design and build firm that specializes in vegetated roofs and rooftop farms.

There are numerous private equity funds investing in community-oriented climate solutions in international markets. Several DivestInvest Philanthropy signatories have invested in the **Africa Renewable Energy Fund** (AREF), which supports small- and medium-scale clean energy projects in Sub-Saharan Africa. AREF

recently reached its final close in September 2015 at a hard cap of $200 million in committed capital. Another African private equity fund, **Mainstream Renewable Power**, develops solar and wind projects and is on track to adding 1.3 GW of new renewable energy capacity across Africa by 2018, increasing energy access for communities.[23]

International Housing Solutions (IHS), a South Africa-based private equity investment manager, invests in green affordable housing for lower- and middle-income households in Sub-Saharan Africa. IHS's first fund closed at $230 million, and its second fund is expected to close in January 2017 and has already raised $180 million from a number of investors, including the Compton Foundation. IHS has raised $30 million in "green capital" from the IFC Global Environmental Facility, which will be used to improve energy and water efficiency in housing units.

Rockefeller Brothers Fund

Endowment Size: $830 million (as of 9/30/2016)
President: Stephen Heintz
Outsourced Investment Team: Perella Weinberg Partners Agility

2010
- Board approves initial steps to align portfolio with mission, inluding 10 percent impact target allocation and positive ESG screening

2014
- RBF becomes DivestInvest Pledge signatory and announces commitment to divest from fossil fuels, beginning with coal and oil sands
- RBF revises investment policy statement, allowing for greater flexibility regarding mission-aligned investin

2016
- RBF target portfolio allocation for impact investment to 20 percent
- RBF has reduced its fossil fuel exposure by more than half relative to 2014

Founded in 1940, the Rockefeller Brothers Fund (RBF) seeks to "advance social change that contributes to a more just, sustainable, and peaceful world." RBF believes that the enormity of the environmental, social, and economic challenges facing today's increasingly interdependent world necessitates more than grantmaking alone. As such, RBF prioritizes investment policies that enable the foundation to achieve its long-term financial objectives while aligning its investments with its mission.

In 2010, RBF's board approved a set of steps to integrate programmatic interests into the Fund's investment strategy, which has evolved into a two-pronged approach to ensure all investment allocations across the entirety of the endowment reflect mission-aligned investing objectives:

1. Increasing the degree of alignment between the Fund's portfolio and mission through integrating ESG considerations into investment processes, and divesting from investments in fossil fuels
2. Allocating a portion of the Fund's portfolio to impact investments that advance the Fund's mission and programmatic work[24]

The following schematic illustrates RBF's approach to mission-aligned investing:[25]

Mission-Aligned Investments	• All mandates evaluated under fossil fuel divestment objectives • Intergration of ESG factors into investment process (primary publc equities) • Proxy voting implemented wwhen possible
Impact Investments	• Market grade investments in primary capital (e.g. private equity and debt, and real assets such as real estate and infrastructure) with meaningful and measurable impact advancing the RBF's mission and program initiatives

Source: Rockefeller Brothers Fund

24. "Mission-Aligned Investment Efforts," Rockefeller Brothers Fund, June 2016. http://www.rbf.org/sites/default/files/rbf_mission_aligned_investment_efforts_2016-07.pdf
25. Ibid

23. "Rockefeller Brothers Fund Confirms Investment in Mainstream Renewable Power Africa Power Generation Platform," Mainstream Renewable Power, July 28, 2016.

RBF began with a portfolio allocation target of up to 10 percent for impact investments that further the Fund's mission, while also increasing exposure to strategies that positively screen for ESG considerations, particularly in public equities. In September 2014, in line with RBF's commitment to mission-aligned investing and combatting climate change, RBF became the largest foundation to join DivestInvest Philanthropy. RBF began with divestment from oil sands and coal companies, and to date has reduced its total fossil fuel exposure by more than half. In 2016, RBF increased its portfolio allocation target for impact investments to 20 percent and to date has committed $100 million in market-rate impact strategies, of which $65 million is committed to addressing climate change and resource optimization.

In 2016, RBF committed $12.5 million to **Mainstream Renewable Power**, a private equity fund that is investing in wind and solar projects throughout the African continent. Other commitments in climate solutions include a $20 million real assets investment in **New Energy Capital's Infrastructure Credit Fund,** a domestic clean energy and infrastructure fund; a $20 million real assets investment in **Vision Ridge's Sustainable Asset Fund**, a domestic fund investing in resource optimization across water, agriculture, renewable energy, energy efficiency, and transportation; and a $15 million commitment to **Generation Investment Management's Climate Solutions Fund II**, a developed markets private equity fund focused on enhanced resource productivity and reducing pollution, waste, and emissions.

RBF's approach to investing in climate solutions prioritizes environmental impact alongside financial return. While RBF's sustainable development programmatic work addresses the intersection of environmental sustainability and social equity, the Fund's investments in climate solutions focus primarily on environmental impact. The Fund seeks exclusively market-rate returns across its portfolio and invests globally in climate mitigation and adaptation solutions.

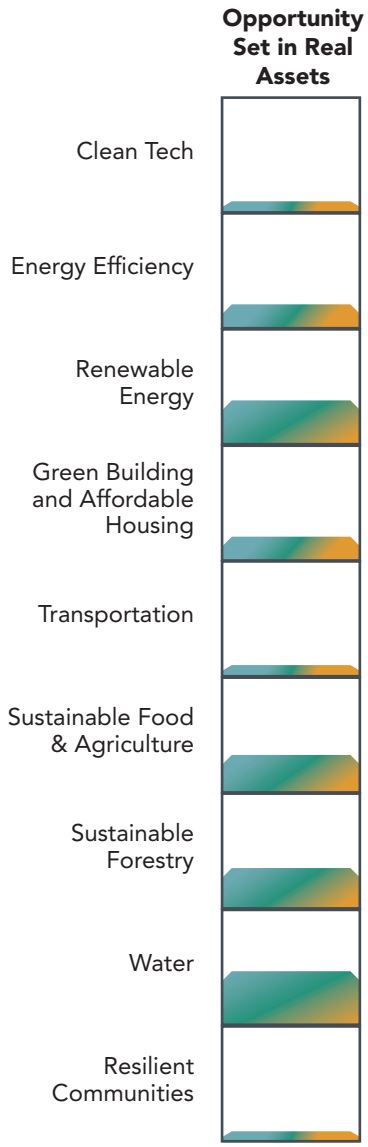
Real Assets

Real assets consist of debt and equity investments in physical assets—primarily infrastructure, real estate, and commodities—either directly by an asset owner or through a financial intermediary. The built environment, agriculture, forests, and other infrastructure and commodities that fall into the real assets category together account for a major portion of global carbon emissions, and can also be highly vulnerable to climate change risks. A significant and growing concentration of investment opportunities in community-oriented climates solutions can be found in this asset class, ranging from direct ownership of green affordable housing units and renewable energy assets to funds investing in organic agricultural land and sustainable forestry. Real assets tend to be safe investments with strong returns, as they are less correlated with macroeconomic trends, can provide inflation protection, and can produce steady income for investors.

The American Society of Civil Engineers (ASCE) has calculated the infrastructure investment gap in the US to be $1.4 trillion through 2025, and $5.2 trillion through 2040.[26] According to ASCE, failure to close this gap through 2025 will cost each household $3,400 each year in disposable income due to infrastructure deficiencies. In the meantime, damages associated with climate change-related extreme weather events have risen consistently in recent years, impacts that are felt first and worst by lower-income communities. Whether in the United States or across the world, investing in climate-smart infrastructure is crucial for ensuring community resilience moving forward. **North Sky Capital** is a fund manager investing in clean energy infrastructure in the US that also integrates social impact considerations into its investment decision-making. North Sky's Alliance Strategy invests in solar, waste-to-energy, landfill gas, biofuels, wind, water, energy storage, and recycling, and is expected to generate over 900 megawatts of renewable energy, produce nearly 900 million barrels of biofuels, and create over 1.3 million union job hours.

The agriculture sector accounts for roughly 13 percent of global CO_2 emissions, second only to the energy sector, while the world's forests, two-thirds of which are managed, absorb roughly 30 percent of annual

26. "Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future," American Society of Civil Engineers, 2016.



anthropogenic CO_2 emissions.[27] These sectors account for a significant portion of the global workforce, particularly in emerging markets, and are both highly vulnerable to the impacts of climate change. For these reasons, investments in sustainable agriculture and forestry that focus on community resilience are more important than ever.

Agricultural Capital Management (ACM), the food and agriculture arm of Portland-based sustainable real assets manager Equilibrium Capital Management, focuses on scaling regenerative food production. ACM makes investments in permanent cropland and midstream assets to create vertically integrated, sustainable farming enterprises. ACM owns and operates farms and facilities in the western US focused on citrus, hazelnut, blueberry, and table grape production. ACM is a triple-bottom-line investor with an explicit commitment to positively impacting communities in which it operates, and to a "quality employment footprint."

Lyme Timber Company LP, a forestland investment management company that purchases timberland with unique conservation value, converts operations to sustainable forestry, and limits future development and uses of the land through conservation easements. By selling conservation easements, Lyme not only preserves ecosystem services and carbon storage capacity, but also helps sustain rural communities by enabling the continuation of livelihoods in sustainable forestry and recreational access for visitors and locals.

Buildings account for approximately 40 percent of global energy consumption and one third of CO_2 emissions.[28] Green buildings worldwide comprise a market that is over $260 billion with anticipated growth of 13 percent per year through 2020.[29] At the same time, one of the greatest challenges facing low-income families in the US and throughout the world is lack of affordable housing, a necessity for community health and wellbeing. These factors have led to a growing number of investment opportunities in green affordable housing through both direct investments and real estate fund managers that are addressing community needs for affordable housing, reducing CO_2 emissions, and generating strong returns for investors.

Jonathan Rose Companies, a real estate investment management company, offers an affordable housing preservation strategy that acquires, preserves, and greens existing affordable multi-family housing properties in target markets throughout the Unites States, with a focus on areas with declining affordable housing stocks. Jonathan Rose strives to purchase buildings close to public transportation, and implements energy and water efficiency upgrades that benefit residents, investors, and the environment. The firm also strives to improve residents' access to social services, and leverage local resources and fee-based services to employ various programs and classes to improve the lives of its residents.

27. "CAIT Climate Data Explorer," World Resources Institute; and Yude Pan, et al., "A Large and Persistent Carbon Sink in the World's Forests," Science 333 (2011): 988-993.
28. "Why Buildings," UNEP Sustainable Buildings and Climate Initiative.
29. "Real Assets: A Primer for Families," The ImPact, 2016.

Real Assets:
Ecotrust Forest Management

Ecotrust Forest Management (EFM) is a certified B-Corp forestland investment management and advisory services company located in Portland, Oregon. Founded in 2004, EFM's objective is to demonstrate an alternative commercial approach to forestland management that can produce high-quality timber, protect critical ecosystems, improve carbon sequestration, and sustain forest-dependent rural economies while generating long-term value for investors. EFM has deployed over $80 million since inception into forestland strategies in the Pacific Northwest, and currently manages over 32,000 acres in the region to Forest Stewardship Council (FSC) standards by utilizing ecological forestry practices.

EFM combines public and private capital, philanthropic debt, and tax advantaged financing—including New Market Tax Credits—to finance forestland asset acquisition and management. EFM's diversity of financing sources, in addition to its unique access to deal flow, knowledge of environmental markets, and ecological forestry practices, allow it to target appropriate risk-adjusted returns for the timberland asset class.

EFM's ecological forestry practices focus on increasing the carbon storage capacity of Pacific Northwest forests, improving its resilience to wildfire and disease, supporting biodiversity, and protecting water sources. EFM's forests store 1.7 million tons of carbon and provide habitat for 47 species of mammal, fish, and amphibians. Through targeted acquisitions that aim to steward important water resources, EFM has protected 85 miles of streams, 1,994 acres of drinking watersheds, and 13 freshwater springs.

EFM aims to maximize local community benefits by increasing both local employment in rural communities—88% of employment created in 2015 by EFM's first fund is directed toward local residents—and the amount of land owned by local entities. When exiting deals, EFM explicitly prioritizes local long-term landowners, including indigenous tribal communities. Local buyers tend to be at a disadvantage in competitive timberland markets that require quick turnaround times and ready access to capital. EFM designed its second fund to act as a bridge owner, holding the land in order to provide local long-term owners the opportunity to raise funds to purchase the land, while implementing an FSC-certified management plan in the interim.

"Forestland investment is a unique opportunity to simultaneously address climate change, improve community resilience, sustain biodiversity, and create jobs in rural areas while generating risk-adjusted returns in a relatively stable asset class," says Director, Amrita Vatsal. "For us, resilient communities, a healthy planet, and profit are not mutually exclusive goals—they are inherently intertwined."

Fast Facts:

- **Firm:** Ecotrust Forest Management
- **Strategy: Ecotrust Forests III**
- **Target Geography:** Pacific Northwest

Relevant Themes

- Sustainable Forestry
- Water
- Resilient Communities

Additional Opportunities

Beyond opportunities in specific asset classes, community-oriented climate solutions are being supported in other ways—through cooperative business and financing models, alternative vehicles for financing energy and resource efficiency and clean energy, and collaborative and informational platforms that facilitate investment in climate solutions.

Cooperative Businesses

Investing in cooperative businesses is an impactful opportunity to integrate community-oriented climate solutions into an investment portfolio. Cooperatives are businesses or organizations that are owned by their employees or members. In the case of employee-owned cooperatives, employees have voting rights and share in the governance of the business. Cooperative businesses help build resilient local communities, and a growing number are directly or indirectly contributing to climate mitigation and adaptation through their business operations. There are approximately 300 employee-owned cooperatives in the US, operating across a wide range of industries with 3,500 employee-owners and $400 million in annual revenues.[30]

The Democracy at Work Institute writes that worker cooperatives are "an effective tool for creating and maintaining sustainable, dignified jobs; generating wealth; improving the quality of life of workers; and promoting community and local economic development, particularly for people who lack access to business ownership or even sustainable work options."[31] Worker cooperatives also tend to be more productive than conventional businesses, with staff working "better and smarter" and production organized more efficiently.[32] According to a report published by the International Organization of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA), worker cooperatives also tend to be more resilient in times of financial crisis compared to conventional enterprises.[33]

For these reasons and others, growing numbers of foundations are investing debt and equity capital in cooperative businesses, either directly or through an intermediary such as a CDFI or cooperative loan fund. Foundations can invest in a number of regional and national lenders that are dedicated to investing in cooperative businesses. These include the Cooperative Fund of New England, Northern California Community Loan Fund, Chicago Community Loan Fund, National Cooperative Bank, RSF Social Finance, The Working World, and Shared Capital Cooperative. Many of these lenders' portfolios include cooperative businesses working on climate solutions. **The Cooperative Fund of New England** (CFNE), for example, has a solar sales and installation company, an energy efficiency services company, and a waste management company in its portfolio. CFNE's Social Investment Loans offer investors unsecured debt investment opportunities with interest rates of 0 to 2 percent over negotiable terms.

The Working World (TWW) is an investment fund dedicated to community-centered economy and ecological sustainability. TWW pursues this goal by supporting the growth of cooperative businesses in the US and Latin America through a model of non-extractive finance combined with customized technical assistance. TWW's non-extractive 'patient capital' model means that loans are only repaid from profits, so that the finance provided does not leave a community worse off than they were prior to the loan. In other words, investor returns are dependent on the success of the business. Since 2005, TWW has made more than 1,000 investments in over 200 worker-owned cooperative businesses, including many that are contributing to climate change mitigation and creating jobs outside of extractive industries. One example is New Era Windows, a Chicago-based producer of affordable energy efficient windows that recently completed its conversion to a worker-owned cooperative with the technical and financial support of TWW.

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30. Hilary Abell, "Worker Cooperatives: Pathways to Scale," Democracy Collaborative, June 2014.
31. "The Benefits of Worker Cooperatives," Democracy At Work Institute.
32. Virginie Pérotin, "What do we really know about worker co-operatives?" Co-operatives UK, September 2016.
33. Bruno Roelants et al., "The Resilience of the Cooperative Model," CECOP-CICOPA, June 2012.

TWW invests debt and equity in a portfolio of cooperatives and offers investors promissory notes and floating rate notes with returns of 0 to 7 percent over 5 to 10 year terms, dependent on the success of the underlying portfolio.

TWW is currently helping create the **National Financial Cooperative**—a cooperative association of place-based, community-led loan funds that are building worker-owned and managed businesses across the US through a shared model of non-extractive finance. The National Financial Cooperative now consists of 10 cooperative loan funds throughout the US that are sharing knowledge, services, and capital in pursuit of a common goal of a just transition.

Foundations can also choose to invest directly, through debt or equity, in the development of cooperatively owned businesses that are providing community-oriented climate solutions. The majority of direct investment opportunities are to finance the conversion of existing businesses into worker cooperatives. Most worker coop conversions have primarily been debt-financed, although equity financing is increasingly being utilized through issuing non-voting equity shares. Debt investments are usually collateralized with assets and inventory, and terms are negotiated between the investor and cooperative. Returns on non-voting equity shares for outside investors, also known as Preferred Class B Shares, are generated through and dependent upon the cooperative's financial surplus (profits). **Namasté Solar**, a Boulder, Colorado-based employee-owned solar company, is an example of a cooperative conversion that was financed, in part, through equity investment capital from a number of investors, including foundations. The company created a class of non-voting preferred stock available to external investors who commit to invest for a minimum of five years and agree to a targeted dividend of 6.5 percent.[34]

As is the case with direct investing across asset classes, investing directly into cooperatives requires internal expertise and capacity that some foundations may lack, in which case cooperative loan funds offer an excellent opportunity to access a diverse portfolio of community-oriented climate solutions and reduce internal due diligence requirements. DivestInvest Philanthropy signatories that are investing in cooperatives include Libra Foundation, Chorus Foundation, and Fund for Democratic Communities, among others.

Sunsetting Foundations: Chorus Foundation and Fund for Democratic Communities

Chorus Foundation:
Endowment Size: $10.5 million (as of 12/1/16)
Founder and President: Farhad Ebrahimi
Investment Consultant: None

The Fund for Democratic Communities:
Endowment Size: $7.2 million (as of 12/1/16)
Co-Managing Director: Ed Whitfield
Investment Consultant: Kuhn Associates

The Chorus Foundation and the Fund for Democratic Communities (F4DC) are two foundations with missions that are deeply grounded in the conceptual framework of a just transition, participatory democracy, and non-extractive finance. Chorus and F4DC are both sunsetting foundations—foundations that are spending down their endowments in their entirety by a target date.

Founded in 2006, the Chorus Foundation's mission is to work "for a just transition to a regenerative economy in the United States…in which everyone can find meaningful work; an environment in which everyone has access to clean air, clean water, and a stable climate; and a democracy in which everyone has a say." Chorus views the climate crisis as inextricably linked to a political crisis characterized by civic disenfranchisement and an economic crisis characterized by severe inequality, and believes that the communities that have been most severely affected by these crises are best positioned to respond to them. As such, Chorus focuses its grant-making and investments on helping organizations, especially those "on the frontlines of the old extractive economy," build political, economic, and cultural power.

34. Jarrid Green, "Namasté Solar: A Profile in Cooperative Ownership," Center for Social Inclusion, 2015.

For Chorus, becoming a DivestInvest Philanthropy pledge signatory in 2014 was an easy decision, as the foundation has never invested in fossil fuels. Farhad Ebrahimi, Founder and President of the Chorus Foundation, says that Chorus' approach to investment has not changed since becoming a signatory, and that he saw it as "an opportunity to have conversations with peers about the role of foundations in investing in a just transition." As a sunsetting foundation with a goal of spending down its endowment by 2023, Chorus has made only 11 investments over the past five years. Chorus' investments include a private debt investment of $50,000 in **Yansa Group** to finance community-based wind farm projects in Mexico; a $50,000 private debt investment in **SFunCube LLC**—now **Powerhouse**—an Oakland, California-based incubator and accelerator dedicated to solar; and a $100,000 private equity investment in **Mosaic**, an Oakland, California-based solar project financing company that began as a solar crowdfunding platform and has since evolved to become a leading provider of home solar loans.

Ebrahimi refers to these investments as legacy investments, clarifying that his vision for where and how capital needs to flow has changed since the foundation's inception: "Philanthropy and investment need to be refocused on building local, community power and cultivating regenerative, resilient economies. We're helping to build a model of non-extractive finance that values community resources and transfers control of capital to communities most affected by economic and environmental crises."

Replace with: "One of the vehicles through which Chorus has been investing in its vision of a non-extractive, regenerative economy is **The Working World** and the **National Financial Cooperative**. (See Cooperative Businesses). Chorus has invested $575,000 in The Working World loan fund, and has provided grant money as well, to support the growth of several worker-owned cooperatives, including New Era Windows, a worker-owned manufacturer of affordable energy efficient windows. Many of Chorus' place-based grantees have begun to work with The Working World to build their own loan funds at the local level. Ebrahimi says that if these community-controlled financial institutions had existed when Chorus was founded, then he may not have started a foundation in the first place and instead directed his resources to local financial cooperatives "so that they could see the return on investment themselves."

F4DC, a Greensboro, North Carolina-based private foundation founded in 2007, is also very involved in supporting the development of the National Financial Cooperative as a whole as well as its member loan funds. F4DC supports community-based initiatives and institutions that foster authentic democracy to make communities better places to live. F4DC provides technical assistance and grants to groups that engage in participatory democracy to further their social change objectives; convenes groups and individuals committed to social and economic justice through deepening democratic practice; and engages people on building a more just, democratic, and sustainable world. F4DC has made over $3 million in grants to support grassroots democratic organizing efforts, primarily focused in the Southeast, North Carolina, and Greensboro.F4DC does not have an explicit environmental focus in its programmatic work and investment portfolio. Joining DivestInvest Philanthropy helped expose and connect F4DC to foundations doing just transition work. Because F4DC is a sunsetting foundation, the foundation has more than half of its investment portfolio in government bonds, and the rest is in SRI funds, CDFIs, and direct investments in cooperative businesses. F4DC helped seed and continues to support operational aspects of the Southern Reparations Loan Fund (SRLF), which makes business loans to cooperatively owned businesses anchored in the most marginalized Southern communities. SRLF and its partners at The Working World made over $400,000 in debt and equity placements in the **Renaissance Community Co-op**, a 10,500 square foot full service, member-owned grocery store in Greensboro, North Carolina, that opened its doors in 2016. The Renaissance Community Co-op will alleviate an 18-year food desert and bring good jobs, healthy living options, and community wealth to a neighborhood that struggles with obesity, diabetes, unemployment, and poverty.

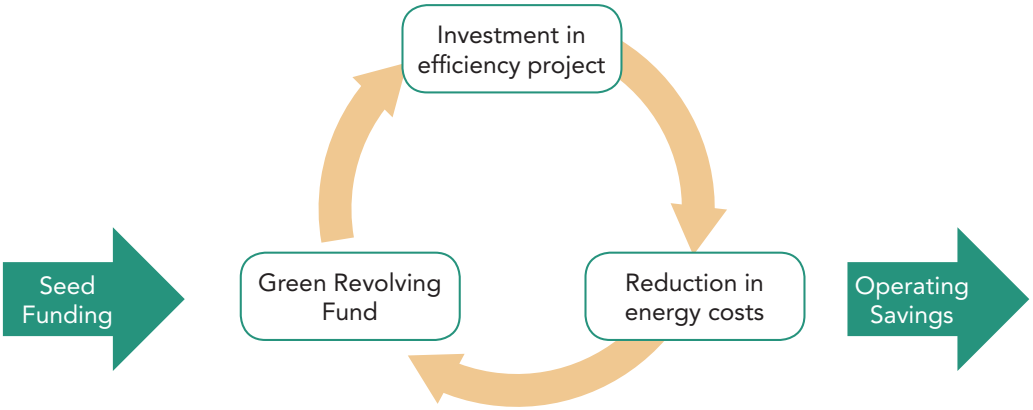
"We aren't seeing many investment opportunities in climate solutions that are economically transformative," says Ed Whitfield, Co-Managing Director of F4DC. "That's why it's important for organizations like ours, that are committed to local wealth and power creation, to be a part of DivestInvest and bring our perspective into the climate conversation."

Alternative Clean Energy Financing Vehicles

A variety of alternative clean energy financing vehicles have emerged to provide foundations with additional place-based and community-oriented investment opportunities in climate solutions.

A **green revolving fund** (GRF) is an internally structured investment vehicle that allows an organization to finance and implement sustainability projects in their facilities, such as energy efficiency, renewable energy, and water or waste reduction measures. A portion of the savings generated from these projects through reduced operating costs are fed back into the GRF and used to fund the next cycle of investments. (See Figure F.) The Sustainable Endowments Institute's (SEI) Green Billion Challenge initiative encourages nonprofit institutions to institute their own GRFs. The initiative currently has 57 participating institutions that have collectively committed $117 million to GRFs to implement energy efficiency improvements. SEI reports that the median return on investment generated through energy efficiency improvements is 28 percent annually, and that the average payback period is 3.5 years.[35] SEI is currently building an investable fund called the Building Energy Savings Together (BEST) Fund. It is a philanthropic pooled investment fund, drawing from both foundations and individual philanthropic investments. SEI is targeting an initial $1 to $2 million in deployed capital to provide under-resourced institutions with financing and technical support to invest in energy and resource efficiency projects, while diverting a portion of the institution's savings into seeding its own GRF to support further projects in the future. SEI plans to scale the BEST Fund to $10 to $20 million within three years, stating that "the BEST Fund has the potential to leverage investments of at least $70 million in projects over the next decade, an initiative that will save institutions more than $350 million over the lifespan of those investments."[37] While the BEST Fund will offer loans to finance these energy and resource efficiency projects, it is also offering an Energy Service Agreement (ESA) to under-resourced institutions that may not be able to take on additional debt. ESAs are low-risk, off-balance sheet, cash-flow positive service agreements that support maintenance or repair of efficiency improvements. The fund's return on investments will be in the 2 to 3 percent range over 5 to 6 years, depending on the size of investments and negotiated terms.

Figure F. Green revolving fund life cycle



Source: Sustainable Endowments Institute[36]

The BEST Fund is an example of technological climate-solutions being applied in place-based institutions that over time can positively impact the communities in which they are located, in this case through the GRFs that will be seeded. One example of a GRF project supported by SEI is the Catholic Covenant Energies (CCE) program for the Catholic Climate Covenant.[38] It is the first energy efficiency program of its kind focusing entirely on Catholic facilities, with an estimated 70,000 Catholic-owned buildings nationwide. The project launched in November 2016, with a pilot project in the Archdiocese of Cincinnati. The project targets $2 million in energy efficiency investments in various parishes beginning in early 2017. The savings from the

35. "The Billion Dollar Green Challenge,"Sustainable Endowments Institute.
36. "Green Revolving Funds Making the Grade," Touchstone Energy.
37. "What We Do," The Best Fund.
38. "Catholic Covenant Energies," Catholic Climate Covenant.

energy efficiency improvements will be cycled back into a GRF that will allow energy and resource efficiency improvements across the archdiocese to continue, as well as into core Church ministries such as education, youth outreach, and direct services. The BEST Fund will support projects such as this one, and philanthropic investors will be able to work with the Fund to target projects in particular communities of interest.

Urban Ingenuity (UI) specializes in financing energy efficiency retrofits and renewable energy installations that create public and community benefits. UI blends diverse public and private financial tools to offer investors market-rate returns in community-oriented clean energy projects. The firm is a recognized leader in Property Assessed Clean Energy (PACE) financing, a voluntary tax-based security that is available in 32 states and Washington, DC, to finance money-saving clean energy building upgrades. UI helped pioneer the "CivicPACE" investment strategy to bring long-dated, low-cost, and secure PACE financing to solar and efficiency improvements in public and non-profit affordable housing, achieving landmark uses of PACE in HUD and SBA-approved transactions and accessing low-cost debt through tax-exempt bond markets. Urban Ingenuity has also developed innovative tax-equity investment structures for funding solar energy, battery storage, and micro-grids, with a focus on non-profit community-based organizations. Their "Open Source PPA" structure makes tax equity investment more readily available for solar projects serving nonprofits, affordable housing, schools, and faith-based institutions, while increasing cash flows back to their mission-based work. While big banks frequently invest in solar tax equity deals, the current market too often fails to serve community-based organizations and smaller projects due to credit quality or small

Private Equity and Private Debt:
BlocPower

BlocPower is a platform that connects capital with investment-grade green building projects in financially underserved communities. BlocPower leverages data analytics, combined with their own building energy audits to develop predictive measures to identify buildings in low-income, underserved urban areas that are energy inefficient and in need of energy retrofits. Buildings in low-income communities tend to be more inefficient than in more affluent communities due in large part to a lack of access to capital for repairs and improvements over time. BlocPower works with community leaders and institutions to assemble micro-portfolios, or "blocs," of nonprofits, houses of worship, schools, small businesses, and multi-family residences that would benefit from solar or energy efficiency retrofits and are too small to qualify for energy improvement loans. Forming blocs improves the economic feasibility of projects by spreading out the risk of default, creating pricing discounts, and increasing transactional size.

After performing financial and engineering analyses, BlocPower opens feasible blocs to investment through an online marketplace, which allows both accredited and unaccredited investors to provide zero-interest loans that are repaid over a specified term with the savings generated by each solar and energy efficiency project. In addition to their online marketplace, 10-20 percent of BlocPower's project financing comes from institutional investors in the form of equity and debt investments that generate market- to above-market rate returns. BlocPower is currently raising equity and debt capital for a portfolio of community-owned solar microgrids located on buildings in low-income neighborhoods in New York City that is projected to return high single-digit to low double-digit returns on investment, depending on the type of capital and terms.

BlocPower requires that installation companies bidding for projects employ local underemployed workers from vulnerable populations, where possible. BlocPower is also forming a nonprofit focused on training, hiring, and staffing people from disadvantaged populations in solar and energy-efficiency system installation.

"I do not think that it is possible for the US climate change movement to be successful without the participation of people of color," says Donnel Baird, BlocPower's Founder and CEO. "I view our work as a wholly integrated approach for addressing sustainable economic development and climate change."

Fast Facts:
- **Firm:** BlocPower
- **Strategy:** Project Finance Fund
- **Target Geography:** US Northeast, Midwest, Sub-Saharan Africa

Relevant Themes
- Renewable Energy
- Energy Efficiency
- Resilient Communities

transaction volumes. Urban Ingenuity also works with local governments and real estate developers to build large-scale district energy micro-grids that are resilient to climate impacts, and which put high volumes of capital to work in modern infrastructure projects. Through Open Source PPAs, Microgrid Finance, and CivicPACE innovations, UI is making better priced capital more readily available to support a just transition, building from the ground up and starting in low-income communities. Bracken Hendricks, CEO and Founder of Urban Ingenuity, said in an interview that, "the just transition needs high volumes of long-term investment to anchor job training and new industries in Appalachia, advanced manufacturing in America's heartland, and to create high-wage construction jobs restoring infrastructure and rebuilding our cities. But too often the most beneficial projects are the hardest to fund." Urban Ingenuity is working to meet this challenge, by linking innovative financing mechanisms to a high-volume pipeline of community-based, clean-energy projects.

Commons Energy was launched in 2014 as a subsidiary of the Vermont Energy Investment Corporation and is the nation's first Public Purpose Energy Services Company. It is dedicated to reducing the economic and environmental costs of energy and the greenhouse gas emissions of small- and medium-sized public-purpose buildings. The fund launched with an initial capitalization of $6.5 million, which includes a $5 million PRI impact investment from the John D. and Catherine T. MacArthur Foundation, focused on multi-family housing.[39] In addition to several other funders, the Kresge Foundation's Social Investment Practice provided Commons Energy with a $2 million loan guarantee for the Slow Energy Fund—a $20 million fund for financing energy efficiency projects in public purpose facilities such as schools, health clinics, city halls, and recreation centers. In their annual report, Kim Dempsey, Kresge's Social Investment Practice deputy director, said, "This is very much a learning investment. It's a new, untested model, but one we believe has the potential to accelerate adoption of deep energy retrofits in public-serving buildings."[40]

Intermediary Platforms and Collaborative Initiatives

Several challenges faced by foundations interested in investing in community-oriented climate solutions are 1) a lack of opportunities in particular geographies or that align with specific objectives, and 2) a lack of internal resources needed to properly identify and analyze these investment opportunities. A number of collaborative initiatives and intermediary platforms are helping address these challenges by helping seed and connect investors with new opportunities in community-oriented climate solutions.

Canopy is a collaborative enterprise spearheaded by The Russell Family Foundation, The Laird Family Foundation, and the Meyer Memorial Trust that conducts research and due diligence on place-based investment opportunities with positive community-level impacts in the Pacific Northwest. The initiative also trains entrepreneurs and fund managers on how to structure impact investment funds and raise capital. Canopy was created when several foundations identified a need for investors to share knowledge and resources in order to identify local, small-scale investable opportunities in the Pacific Northwest and to increase capital flows to these opportunities. Seeded with $500,000 by TRFF, Canopy has already mapped the landscape of investment opportunities in the region by analyzing points of connection among regional players and gaps in the flow of capital.

Another collaborative initiative, the **Appalachia Funders Network**, connects funders with an interest in investing in Appalachian communities.[41] Sandra Mikush, Deputy Director of Mary Reynolds Babcock Foundation (MRBF), explained why MRBF participates in the network: "The Appalachia Funders Network plays a key role in aligning public and private sector funders around the concept of a just transition." The Appalachia Funders Network joined with the Rockefeller Family Fund to launch the Just Transition Fund in 2015 with an initial investment of $450,000.[42] The fund has awarded nearly $1 million in capacity-building grants to coal communities and leveraged $11.5M in Federal POWER Initiative grants, which are designed

39. "New Company to Bring Energy Savings Within Reach for Underserved Markets," Commons Energy.
40. "Kresge Foundation Annual Report 2015," Kresge Foundation.
41. "About Us," Appalachia Funders Network.
42. Kathryn Coulter, "Just Transition Fund," Appalachia Funders Network.

to help communities prepare for the economic transition away from coal by developing approaches to diversify economies, create jobs in new or existing industries, attract new sources of job-creating investment, and provide a range of workforce services and skills training for high-quality, in-demand jobs.[43] The Appalachia Funders Network recently convened an impact investing summit to explore developing a regional system to meet the capital needs required to accelerate the region's economic transition. Next steps include exploring tools and platforms to attract and deploy investment dollars. CDFI loan funds providing community-oriented climate solutions in Appalachia, such as the Conservation Fund's **Natural Capital Investment Fund**, have expanded their lending capacity by leveraging this pooled regional funding model.

The **Peer Network** is a growing group of grassroots organizations involved in just transition work that is supporting the development and growth of the National Financial Cooperative— a cooperative association of place-based, community-led loan funds that are building worker-owned and managed businesses across the US through a shared model of non-extractive finance (See Cooperative Businesses Study). Peer Network members are at different stages of launching loan funds and business incubators; F4DC's work with the Southern Reparations Loan Fund (SRLF) is one example (See Sunsetting Foundations Case Study). The Center for Economic Democracy in Boston is in the process of launching the Ujima Project, a multi-stakeholder network that will develop a democratically governed community capital fund to invest in local businesses, create jobs, and distribute wealth in communities of color. In August 2016, as a first phase of the project, Ujima held a business pitch event to connect community investors with five local businesses.[44]

Several intermediary platforms have also formed over the past few years to connect institutional investors with investment opportunities in climate solutions. **PRIME Coalition** is a nonprofit formed in 2014 to assist philanthropic organizations with identifying and pursuing direct investments in early-stage companies or projects that provide climate solutions.[45] PRIME partners with leading business incubators, accelerators, case competitions, venture capital firms, corporations, universities, and the US government to identify best-in-class investment opportunities. PRIME staff then screen and conduct due diligence on companies that are interested in and eligible for investment by philanthropic foundations, as well as provide legal and financial expertise to foundations along the way. The **Aligned Intermediary** was founded in 2015 as an advisory group which is helping long-term investors accelerate and increase the flow of capital into the development of new climate infrastructure projects in the areas of energy, water, and waste by sourcing and screening deals, performing due diligence on companies and projects, and providing additional resources and support throughout the investment process.[46] While neither PRIME Coalition nor the Aligned Intermediary integrate an explicit social or community impact component into their services, specific investments that are identified and screened by both platforms do fall into the community-oriented climate solutions category.

43. "FACT SHEET: The Partnerships for Opportunity and Workforce and Economic Revitalization (POWER) Initiative," March 27, 2015.
44. "Boston Ujima Project," Ujima Boston.
45. "What is PRIME," PRIME Coalition.
46. "Aligned Intermediary—Climate Change Solutions," Aligned Intermediary.

Conclusion

Opportunities to invest in fossil-free climate solutions that also foster community resilience have emerged across a wide range of asset classes commonly found in diversified investment portfolios – from highly liquid cash investments in community development banks and credit unions and fixed-income strategies in the public bond markets to triple-bottom-line alternative investments in private debt, private equity, and sustainable real assets. Foundations seeking to meet their commitments to the DivestInvest Philanthropy pledge—to divest from fossil fuels and to invest in solutions – can now finance an expanding array of solutions to climate change with positive social benefits as well, in renewable energy and energy efficiency; sustainable food, farming, and forestry; water and resource conservation; green building, affordable housing, smart growth and transit-oriented development; and resilient community development, among other leading themes.

We have seen how a wide variety of foundations – from highly endowed foundations with global grant-making programs to mid-sized, family and place-based foundations working regionally, to non-endowed sunsetting foundations – have integrated community-oriented climate solutions into their mission investment strategies, as an integral part of their commitment to DivestInvest Philanthropy. This has not happened overnight, and barriers, challenges, and misconceptions naturally remain about the scale, diversity, and risk/return characteristics of investments in this emerging domain of community-oriented climate solutions. But as the case studies of both funds and foundations highlight and our broader analysis makes clear, foundations now have dozens of investable opportunities that generate multiple financial, environmental, and social returns. By working closely with skilled investment advisers and fund managers with knowledge and expertise in both climate-related and community investment, investors can readily meet their specific investment objectives while directing capital to the transition to a new climate economy.

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Additional Resources

Aeris
http://aerisinsight.com

Aligned Intermediary
http://www.alignedintermediary.org

Appalachia Funders Network
http://www.appalachiafunders.org

As You Sow
http://www.asyousow.org/divest-invest/#Invest

BankImpact
http://ncif.org/inform/bankimpact

Bridges Ventures
http://bridgesventures.com

Canopy
http://investcanopy.com

Catholic Climate Covenant
http://www.catholicclimatecovenant.org

CDFI Fund
https://www.cdfifund.gov

Center for Social Inclusion
https://www.centerforsocialinclusion.org

Clean Energy Group
http://www.cleanegroup.org

Climate Bonds Initiative
https://www.climatebonds.net

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http://www.confluencephilanthropy.org/The-Climate-Solutions-Collaborative

Community Development Venture Capital Alliance
http://cdvca.org

Confluence Philanthropy
http://www.confluencephilanthropy.org

CREO Syndicate
http://creosyndicate.org

Democracy At Work Institute
http://institute.coop

DivestInvest Philanthropy
http://divestinvest.org/philanthropy

Global Alliance for Banking on Values
http://www.gabv.org

Global Investor Coalition on Climate Change
http://globalinvestorcoalition.org

Green America
http://app.greenamerica.org/fossil-free

GreenFaith
http://www.greenfaith.org/programs/divest-and-reinvest

ImpactAssets 50
http://www.impactassets.org/publications_insights/impact50

ImpactUs
http://www.impactusmarketplace.com

ImpactBase
https://www.impactbase.org

Institutional Investors Group on Climate Change
http://www.iigcc.org

Investor Network on Climate Risk
https://www.ceres.org/investor-network/incr

Investor Platform for Climate Actions
http://investorsonclimatechange.org

Labor Network for Sustainability
http://www.labor4sustainability.org

Low Carbon Investment Registry
http://globalinvestorcoalition.org/form-registry

Mission Investors Exchange
https://www.missioninvestors.org

Movement Generation
http://movementgeneration.org

National Community Investment Fund
http://www.ncif.org

National Federation of Community Development Credit Unions
http://www.cdcu.coop

Opportunity Finance Network
http://ofn.org

Our Power Campaign
http://www.ourpowercampaign.org

Power Shift Network
http://powershift.org/campaigns/divest/alternatives

PRIME Coalition
http://primecoalition.org

Project Equity
http://www.project-equity.org

Sustainable Endowments Institute
http://www.endowmentinstitute.org

Toniic
http://www.toniic.com

US SIF: The Forum for Sustainable and Responsible Investment
http://www.ussif.org

Appendix: Opportunities in Community-Oriented Climate Solutions

Asset Class	Fund	Clean Tech	Energy Efficiency	Renewable Energy	Green Building and Affordable Housing	Transportation	Sustainable Food & Agriculture	Sustainable Forestry	Water	Resilient Communities
Cash and Cash Equivalents	Alternatives Credit Union		x	x	x					
	Amalgamated Bank				x					x
	Beneficial State Bank	x	x	x	x		x			x
	First Green Bank		x	x						
	New Resources Bank	x	x	x	x		x			x
	Self-Help		x	x	x	x				x
Public Fixed Income	Breckenridge Capital Advisors		x	x					x	
	Community Capital Management				x					x
	RBC Access Capital				x					
	Shelton Capital Management	x	x	x		x			x	x
Private Debt	ARENA Investments	x	x	x						
	BlocPower*		x	x						x
	Calvert Foundation				x					x
	Coastal Enterprises Inc.*			x	x			x		x
	Cooperation Richmond									
	Cooperative Fund of New England		x		x		x			x
	Commons Energy		x							
	Craft3		x	x			x		x	x
	EcoEnterprises Fund*						x	x		x
	Fresh Source Capital*						x			
	Iroquois Valley Farms*						x			
	Mountain Association for Community Economic Development (MACED)		x					x		x
	Natural Capital Investment Fund				x			x	x	x
	Pioneer Valley Grows Investment Fund		x	x			x			x
	Root Capital						x	x		
	RSF Social Finance						x			x
	The Reinvestment Fund		x	x			x		x	x
	Urban Ingenuity	x	x	x	x					
	Vermont Community Loan Fund				x		x	x		x
	The Working World		x	x						x

Asset Class	Fund	Clean Tech	Energy Efficiency	Renewable Energy	Green Building and Affordable Housing	Transportation	Sustainable Food & Agriculture	Sustainable Forestry	Water	Resilient Communities
Private Equity/VC	Africa Renewable Energy Fund			x						
	Arborview Capital		x				x		x	
	Bamboo Capital Partners	x					x			x
	BlocPower*		x	x						x
	Bridges Ventures				x					x
	Coastal Enterprises Inc.*			x	x			x		x
	Conservation Forestry Partners*							x		
	DBL Partners*	x	x	x		x	x			
	EcoEnterprises Fund*						x	x		x
	Fair Food Fund						x			
	Fresh Source Capital*						x			
	Gilded Rogue Enterprises						x			x
	Global Environment Fund	x	x	x			x	x	x	x
	International Housing Solutions				x					
	North Sky Capital*	x	x	x	x	x	x		x	
	Renewal Funds		x			x	x		x	
	SJF Ventures	x	x	x			x			
	Vital Capital Fund	x		x	x		x		x	
Real Assets	Beartooth Capital Partners						x	x	x	
	Blackdirt Capital						x			
	Conservation Forestry Partners*							x		
	EcoTrust Forest Management							x	x	
	Equilibrium Capital Group			x	x		x		x	
	Farmland LP						x			
	Grassland, LLC			x			x			x
	Iroquois Valley Farms*						x			
	Jonathan Rose Companies				x					
	North Sky Capital*		x	x					x	
	The Lyme Timber Company							x		

These opportunities have been cross listed among two or more asset classes.

Note: The opportunities identified in this table are for informational and educational purposes only. It does not constitute investment, legal, tax, accounting, or other professional advice. Nor does it constitute an endorsement of, an offer to sell, the solicitation of an offer to purchase, or a recommendation to invest in any particular security or investment product. Information pertaining to specific organizations and investment products has been derived from publicly available sources as well as materials provided directly to Croatan Institute by organizations mentioned herein. Croatan Institute assumes no responsibility for the accuracy or completeness of such information.

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