Canopy

Reflections & Outlook for Place-Based Investing

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Taking its name from the ceiling of the great forests that still cover much of this area, Canopy's mission is to enable meaningful, community-changing investments that address the specific needs and opportunities of the Pacific Northwest.

With the support of the three founding members—The Russell Family Foundation, Meyer Memorial Trust, and The Laird Norton Family Foundation—Canopy was started based on a shared interest in using capital to strengthen communities through "place-based" investing. The aim was to fill a void between institutional investors and community-based investment solutions by developing a community of practice where foundations, corporations, government organizations, and individual investors could collaborate to identify, prioritize, and allocate investment capital.

Even before Canopy's official launch in early 2015, there was a lot of excitement around the idea. There was a strong agreement among the regional community of the need for an organization like Canopy, and there was interest in the broader impact investing field to replicate the Canopy model in other regions across the country.

Despite such strong initial interest, a year after its launch, Canopy ran into financial struggles and temporarily put its operations on hold. While interest in Canopy's model and offerings remains strong, both among Canopy's membership as well as in the broader investment community, Canopy's members are currently working to determine the way forward for the organization. As part of this process, this case study aims to summarize the various perspectives on the successes and failures of Canopy and synthesize any lessons learned. The hope is that this process may help to highlight potential ways forward for Canopy, both as an organization but also as a general idea and mission.

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1 Motivation Behind Canopy and Its Successes in the Short Run

Each of the foundations involved in Canopy have a slightly different focus in terms of priority issues and localities, but they all have a common interest in investing capital back in the Pacific Northwest region to support community-driven solutions, and they all faced similar challenges in doing so. New, high-quality investment opportunities are hard to find and expensive to research. Adding to this challenge was the lack of visibility of nascent investment funds in the region and an underdeveloped network of financial intermediaries.

Canopy was envisioned as a means of working together to overcome these challenges: to help source quality investment deals and then share the cost of the due diligence research among members. The hope was that this process would also encourage co-investment in approved funds, as many foundations face similar challenges sourcing viable investments. Beyond these benefits in terms of facilitating additional investment in the region, all Canopy members cited building relationships as one of their primary motivators for becoming involved in the organization.

Within just twelve months, Canopy has been remarkably successful in creating lasting relationships among the various actors working in this space and initiating a conversation around place-based investing. In particular, Canopy has shown that it is possible for foundations to collaborate and share information around investments and not just grant making. The conversations among foundations, fund managers, and communities that were started through Canopy will hopefully lead to increased investment in the region.

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2 Understanding the Challenges Facing Canopy

Canopy ran out of funds before it could see the full impact of its work. While this is a common problem among nonprofits and commercial startups, upon reflection, there seem to have been a few core challenges with the Canopy model, which can hopefully offer lessons for those interested in launching their own regionally-focused enterprises.

The Underlying Relationships Among the Various Actors

Canopy really started as an idea with Craig Muska, who at the time was working as the Director of Investments and Foundation Services at Threshold Group—a wealth management firm founded by George F. Russell Jr. As the idea began to develop, The Russell Family Foundation was a natural first stop in the search for funding. From that point on, the relationship between Threshold Group and The Russell Family Foundation significantly shaped the direction that Canopy took, including the development of the organizational structure to avoid concerns over self-dealing.

The Organizational Structure

Canopy was initially structured as a Limited Liability Company (LLC) in order to allow for shared governance and collective control, while maintaining limited liability for investors. The unique organizational structure was established to comply with tax rules private foundations must follow including excess business holding rules, restrictions of unrelated business income, self-dealing, and private benefit concerns. The LLC structure also allowed for long term sustainability as it offered flexibility to pursue activities that are both charitable and non-charitable in nature. (For more details on the decision around Canopy's organizational structure, see "Canopy: Committed to Investing in Our Region" by Craig Muska.)

SUMMARY OF MAJOR CHALLENGES

- **The relationship between The Russell Family Foundation and Threshold Group restricted Canopy's activities and made it more difficult to achieve financial sustainability.**
- **Business model based on membership created challenges due to different expectations around funding timelines and the restrictions on profit creation.**
- **Complexity of service offerings made it difficult for Canopy to clearly define their value add, especially relative to existing organizations and networks.**
- **Canopy likely grew too big too fast, which likely contributed to the difficulty in clarifying its business model.**
- **Different expectations and priorities between Canopy staff who came from the business world, and the Board members, who came from the philanthropy world, may have contributed to high burn rate and challenges around effectively conveying Canopy's model.**

The business model was based on membership, where organizations and individuals could become founding, supporting, or associate members with different associated levels of equity or grant investment. The aim was to have a total of 23 members, including the original three founding members, by the end of 2017.

The Canopy team largely focused their initial business development efforts on private foundations. However, foundations by nature are often slow moving as big decisions are generally tied to quarterly or even annual board meetings. Therefore, even those foundations that may have been interested in making an investment in Canopy were on a much longer timeline than the business model allowed. Additionally, it was difficult to attract for profit entities due to the restriction on Canopy from making any profit.

Canopy gained two new founding members—The Lora L. & Martin N. Kelley Family Foundation Trust and The Seattle Foundation—as well as one associate member—the Greater Tacoma Community Foundation—in its first year. However, this fell far below their target number of members, which led to funding challenges.

The Complexity of Service Offerings

The difficulties in attracting new members created by Canopy's organizational structure was exacerbated by the complexity of the business model. Even a number of the founding board members mentioned the difficulty in understanding Canopy's model. Canopy struggled to clearly define what it was offering. This problem may have been complicated with the labeling of CanopyPLACES, CanopyCAPITAL, and CanopyCATALYST, as it is somewhat difficult to understand which products fall under which header.

Canopy also at times struggled to clarify its value add relative to the large number of existing related institutions, including Mission Investors Exchange, Philanthropy Northwest, and TONIIC. While Canopy offered a complement to these existing organizations, with a focus on regional investing and a number of useful tools, including the regional map and deal room, this unique value added was not always clear to potential members.

PLACES is the ecosystem mapping arm of Canopy. The goal is to highlight investment opportunities and identify unique collaborations among regional stakeholders, by analyzing points of connection and capital gaps, and maintaining an interactive online map of this information.

CAPITAL is Canopy's investment arm. Through a partnership with Threshold Group, Canopy provides members institutional-quality investment research on regionally-focused funds. In partnership with the Global Impact Investing Network (GIIN), Canopy also trains early stage fund managers.

CATALYST is Canopy's capacity building and education arm. The aim is to provide a space for communities to identify, research, and test the viability for investment fund creation around specific areas of interest and need.

Too Big Too Fast

Related to the last point, Canopy may have been a bit too ambitious in terms of its service offerings in the short run. While a number of Canopy's members commented on the value of being able to test multiple ideas in a way that will contribute to the knowledge base for the next iteration of Canopy or a similar organization, the lack of initial focus likely made it more difficult to clarify Canopy's value add.

There seems to be a general consensus among Canopy's members that the fund manager training component could have been dropped. The training was the largest budget item aside from personnel, and it had to be personalized for each fund to the extent that it is not clear how helpful a general curriculum would be. While the fund managers who went through the training and who were interviewed as part of the case study process all view the training positively, it is not clear that the fund manager training is Canopy's greatest value add. Potentially going forward, Canopy could offer a standard set of resources to help fund managers prepare their pitch decks and the necessary legal documents, and could then refer fund managers interested in more personalized training to other resources such as the Global Impact Investing Network (GIIN).

There also seems to be agreement that the learning cohorts could have either been dropped, or at least introduced later. The cohort was important for building relationships and developing interest around regional investing, but the process could have benefitted from having more tangible next steps, which might have been easier further down the road after Canopy was more established.

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Narrow Focus on Foundation Community

Likely due to its origins as a unique collaboration of three foundations in the Pacific Northwest region, Canopy started largely as a network of foundations. The intent was always to involve a broader set of stakeholders, particularly from the private sector. However, these conversations were really just getting started by the time funding ran out in the spring of 2016. It may have benefited Canopy to include a broader set of stakeholders from the outset, even if not as founding members but as simply an advisory board. If nothing else, this may have helped Canopy to develop more of the broader, collaborative feel it was hoping for and separate it from the existing foundation networks. Involving a broader set of actors from the start may have also made it easier to get new members on board, particularly in a shorter timeframe.

There is some sense among the members that Canopy's Board of philanthropy-based individuals may not have been the best fit given the organization's broad aspirations. If the Board had been more diverse or at least if there had been an advisory board in place, there might have been some different decisions made about where to spend time and resources. As it was, Canopy was at a tough intersection of running several traditional non-profit activities, such as field-building and networking, while at the same time, trying to run more traditional business activities, such as developing the deal room.

While their end goals were the same, there was a disconnect in expectations and priorities between Canopy's staff who largely came from the business and wealth management world, and the Board members, who came from the philanthropy world. While this does not seem to have created any major conflicts, it may have contributed to the challenges of effectively conveying Canopy's business model. Different expectations around staff compensation between the business and philanthropy space also likely added to the financial struggles. At the same time, a general lack of start-up mentality among the Board members may have helped to delay the difficult decisions around conserving capital and reducing the burn rate.

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3 Potential Ways Forward

There are a number of potential avenues that Canopy could follow moving forward. Below is an outline of two options. However, this list should in no way be considered complete. There is still a lot of excitement around the idea of Canopy and a lot of enthusiasm for its activities moving forward.

Transition to a Sustainable, For-Profit Business Model

Canopy has the potential to become a sustainable, for-profit business. However, it would be important to clarify Canopy's value add. This could be done by bringing the due diligence research in house and helping to prioritize investment opportunities, rather than just collecting them—which would require registering as an investment advisor with the Security and Exchange Commission (SEC). Due to the excess business holdings restrictions for private foundations, this strategy would require the current stakeholders to divest in Canopy. This would also put Canopy in direct competition with other wealth management organizations.

In the last year, Threshold Group has significantly expanded its impact investing portfolio, which significantly increases the overlap between its work and that which was envisioned for Canopy. While many of the current Canopy members employ different wealth management firms, the question must still be raised: if there are organizations already doing the research and early-stage investment in socially-conscious regional funds, then is Canopy really necessary?

Rely on Support of Operating and Overhead Grants

Canopy could also continue as a member-based organization with the support of smaller yearly or multi-year grants for overhead and operating capital. The extent of activities under this model would obviously depend on the level of grant capital Canopy could attract.

Canopy is prepared to continue building social and economic infrastructure that aligns capital markets with community outcomes.

For a fairly minimal investment by the current members, it would be possible to hire one person to fill an administrative role, which could help maintain many of the members' priorities, including the website, the map, and the deal room, as well as communications. However, at this level, it may be worth re-assessing Canopy's value beyond organizations such as Mission Investors Exchange. The regionally-specific deal room is unique to Canopy, but the utility of this platform is not clear without some way to prioritize investments. Additionally, as Sayer Jones of Meyer Memorial Trust pointed out, in its current format, it is not clear what benefit fund managers gain from getting on the platform. It is important to have an intermediary who can play a networking role between fund managers on the platform and potential investors.

In order for Canopy to add some value for its members beyond existing networks, it may be important to find an individual who can play more of a networking role between foundations, communities, fund managers, and the private sector, which would likely entail someone who has more experience in the investment space. Through this interfacing role, this individual could help continue the conversation around place-based investing and hopefully push forward additional investments in the region.

Under this option, the greatest challenge may be finding the right individual with the requisite skills, who is passionate about regional investing and consequently willing to take a position with likely lower benefits and less growth potential. If Canopy can succeed in finding such an individual, to continue beyond the short term, it will also need to secure operational grant support from members for the longer-term. It will therefore be important to consider whether an unfiltered deal room and the value of the convening aspects of Canopy are sufficient for the members to continue their support for the organization.

The idea behind Canopy continues to draw a lot of interest and excitement both in the Pacific Northwest as well as in the broader impact investing community. At this stage, the question that the Canopy Board keeps coming back to is what is the value add of Canopy, and is Canopy the only source for that value. Each of the Board members is still very committed to the mission of Canopy, and is currently working together to determine the future of the organization. Please keep an eye out for an announcement in the near future.

Questions about Canopy?
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