

Investing to Impact Poverty

A Research Study Initiated by the United Way of the Bay Area

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Agenda

- Overview of SRI, ESG, Impact Investing
- Fiduciary Duty and UPMIFA
- Defining a Process, Aligning with Mission
- Building a Portfolio
- Testing the Portfolio
- Policies
- Implications

- The Investment Committee of the United Way of the Bay Area researched and developed the following process for constructing a model portfolio that would align with its mission to reduce poverty while also complying with traditional fiduciary standards.

SRI and ESG

- SRI: Socially Responsible Investing
 - Exclude companies that make or do ‘bad’
 - Tobacco, weapons, Apartheid
 - Proactively screen for ‘good’ companies
 - Public equity space
- ESG: Environmental, Social, Governance
 - Business management strategies that mitigate future unknown risks
 - Proactive corporate responsibility and reporting
 - Public equity space and corporate bonds

Impact Investing

- Impact Investing: an intentional strategy to align investments with mission
 - Can include all asset classes
 - Some asset classes bring bigger impact
 - Defining the mission focuses the investments
 - Fiduciary duties considered
 - UPMIFA – the standard of conduct for fiduciaries of institutional assets like endowments, private foundations and quasi-public funds like UWBA

UPMIFA & Fiduciary Duty

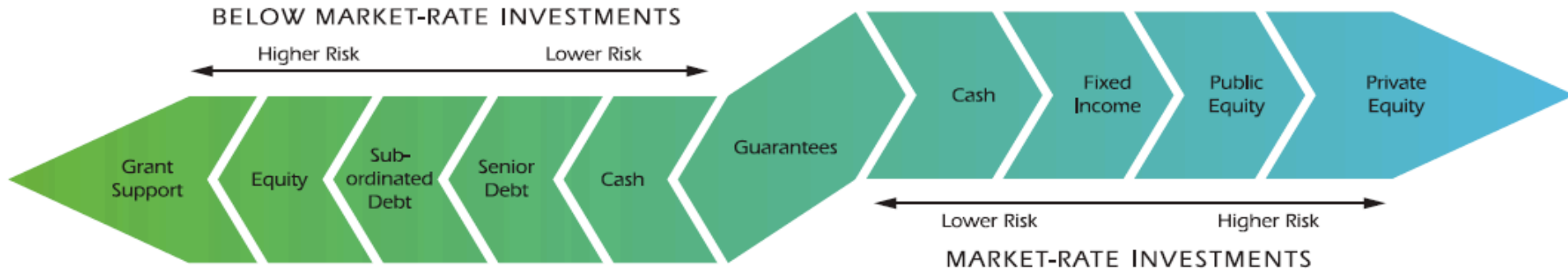
- Uniform Prudent Management of Institutional Funds Act
 - Prudent Person Standard, Whole Portfolio concept
 - Consider institutional characteristics for investment and spending policy (> 7% = imprudent)
 - Its mission, duration and preservation, purpose, and its other resources
 - Liquidity, expected portfolio return, general economic conditions, inflation (or deflation), monitor costs
- Duty of Loyalty – no conflicts of interest
- Duty of Care – to know and follow the laws

Aligning Investments with Mission

- UWBA Mission:
 - To cut poverty in the Bay Area by $\frac{1}{2}$ by 2020
- Investment Committee mission:
 - To study and recommend a process and options
 - For building a diversified portfolio
 - That offers comparable risk and return
 - That aligns with the poverty mission and Bay Area focus

Impact Investing Continuum

THE F.B. HERON FOUNDATION'S CONTINUUM OF MISSION-RELATED INVESTING



- Program Related Investing (PRI) *specific for foundations*
 - Primary motivation is social impact; financial return can vary
- Mission Related Investing (MRI) *specific for foundations*
 - Supports mission
 - Returns can vary; greater emphasis on competitive returns
- Impact Investing * ESG/Sustainable * Triple Bottom Line
 - Market Rate (or greater) Financial Return + Social Impact
- Source: Take Action ! For Impact conference panel

Impact Investing Themes

(Source: *Solutions for Impact Investors: From Strategy to Implementation*, Rockefeller Philanthropy Advisors, p. 64-65.)

Illustrative Landscape of Impact Themes with Asset Class Exposures

	Asset Classes				Asset Classes					
	Liquidity	Income & Wealth Preservation			Capital Appreciation & Wealth Growth			Inflation Protection		
	Cash / Cash-Alternatives	Notes / Other Debt Obligations	Bonds	Absolute Return / Low Equity Correlated	Public Equity	Equity Long / Short	Private Equity	Real Estate	Commodities, Timber & other Real Assets	
Social, Environmental or Blended Impact Themes	Climate Change	Green Bank Deposit	Tax-exempt green bonds	CO ₂ Trading	Positive & Negative Screening		Clean Tech Venture Capital	Green REITs		
	Energy		Screened Corporate Bonds	Alternative Energy Project Finance	Exchange Traded Funds (ETFs)	Renewable Energy	Energy Efficiency Venture Capital		Sustainable Feedstocks	
	Water		Corporate Infrastructure Bonds	Water Treatment Project Finance	Unit Investment Trust, Closed End Funds	Water Funds	Water Technology Venture Capital		Water Rights	
	Community Development	Community Bank CDs	Foreclosure Repair		Microfinance Institutions Debt	Shareholder Proxy Voting		Community Development Venture Capital	Transportation — Smart Development Funds	
	Social Enterprises		Social Enterprise Credit			Micro-Cap Listed Social Companies		Small & Medium Enterprise	Conservation / Ecotourism	
	Health & Wellness				Structured Public Note			Consumer Product Venture Capital	Organic Farming	
	Sustainable Development	Trade Finance Guarantee / Deposit		Smart Growth Municipal Bonds	Blended Debt Equity Hybrid Structures	Thematic Screening			Ranch Land, Agriculture	Sustainable Timber
	Education	Linked Deposit / Guarantee		Charter School Bonds				Education Private Equity	University Green Building	

Impact Investing Process: UWBA Research Process

- Articulate Mission and Values
- Create Impact Themes
- Define Impact
- Develop Impact Investing Policy
- Generate Deal Flow
- Analyze Deals and Evaluate Impact

• *Source: Solutions for Impact Investors: From Strategy to Implementation, Rockefeller Philanthropy Advisors*

- UWBA Goal: Reducing Poverty in the Bay Area by ½ by 2020
- Community Development, Affordable Housing, Job Training, Employment
- Quantify jobs and growth, unemployment rates decline, affordable housing units built, transportation funding, etc..
- Develop Investment Policy: asset allocation, liquidity, risk budgeting, spending, monitoring, etc.
- Gather universe of ESG/Impact investment managers in all asset classes, model portfolios
- Perform due diligence , monitor financial results, and social impact, test for comparable performance and risks

Model Fixed Income Portfolio

- Community Capital Management
 - CRANX: \$1.2 billion, intermediate term, investment grade fixed income
 - Benchmark: Barclays Aggregate
 - Earmarked bonds for CRA credit
 - Geographically focused on SF Bay Area
 - Taxable Municipal Bonds, Redevelopment Agency
 - Bay Area Small Business Administration bonds
 - Bay Area GNMA and FNMA Affordable Housing bonds
 - Salvation Army (corporate)
 - CDFI deposits in Bay Area

- * CRA = Community Reinvestment Act ** CDFI = Community Development Financial Institution

Building the Model Equity Portfolio

- Target Characteristics:
 - Transparency
 - Low fee
 - Rules and Process Based
 - Risk and Returns must be competitive to a traditional market portfolio
 - Indirect impact expected from public equities
 - Consider SRI and ESG screens
 - Shareholder activism

Equity Universe

- BBACAX – Bloomberg Bay Area Index
 - 383 companies headquartered in the Bay Area
 - Cap weighted, Inception 2003
 - Characteristics of the universe: Top 5 stocks = 50% of portfolio
 - Apple, Chevron, Oracle, Google, Wells Fargo

Description*	as of 6/30/11					
	1 - Year		3 -Year		5 -Year	
	BBACAX	S&P 500	BBACAX	S&P 500	BBACAX	S&P 500
Anlzd Return	26.94	30.69	7.89	3.34	4.49	2.94
Anlzd StdDev	17.66	13.17	24.47	20.91	21.86	17.73
Beta	1.31	1.00	1.11	1.00	1.15	1.00
Sharpe Ratio	1.52	2.32	0.31	0.14	0.12	0.06
R-Squared	95.09	100.00	89.29	100.00	86.30	100.00
Anlzd Alpha	-10.35	0.00	4.64	0.00	1.68	0.00
Info Ratio	-0.66	#N/A	0.55	#N/A	0.18	#N/A

Model Sector Allocations

GICS Sector	Optimized BBACAX – HQ	S&P 500
Consumer Discretionary	10.14%	10.60%
Consumer Staples	7.20%	10.50%
Energy	13.18%	13.10%
Financials	16.36%	14.75%
Health Care	13.50%	11.42%
Industrials	5.48%	10.95%
Information Technology	27.09%	18.72%
Materials	0.55%	3.65%
Telecom Services	0.00%	2.93%
Utilities	6.52%	3.37%
Wtd Avg Mkt Cap	\$ 84 billion	\$ 94 billion

Analyzing the Model Portfolio

- Tracking Error
- Benchmark: Russell 3000
 - Market cap range
 - Sector exposure
 - Add other large employers and donors to universe
 - Roche (Genentech), Comcast, Franklin Templeton, Marriott, ATT, Bank of America, UPS, Macy's, Costco, Nordstrom, Western Digital, and others
 - Add but underweight more non-HQ Bay Area companies/employers

Model Equity Portfolio Structure

- Model portfolios:
- Tracking Error to S&P 500

BBACAX +15

BBACAX

- Cap Weighted

5.39%

6.17%

- Equal Weighted

15.68%

15.81%

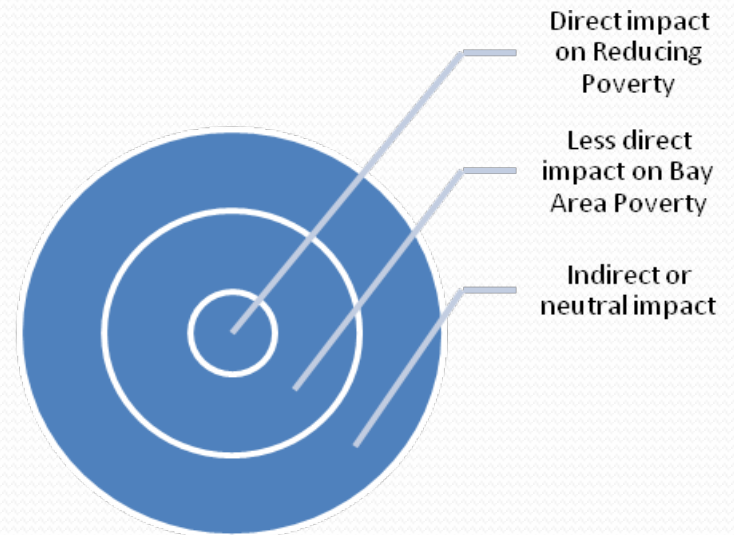
- Optimized

2.68%

2.82%

Adding Social Criteria to the Model Portfolio

- Objective process for Social Screens
- Choosing screens
 - Weighting Criteria
 - Customized Scores
 - Data elements identified
- Testing for impact
 - Geographical + Social screens
 - Tracking Error
- Our thanks to Aperio Group and IW Financial



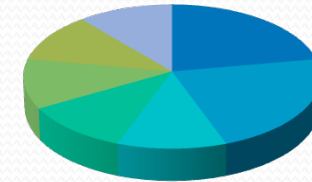
Customized Social Screens

- 25 Categories – Focus Group consensus recommendations
- Alignment with drivers of poverty reduction

Highly Relevant to Poverty	Moderately Relevant	Low Relevance	Not Relevant
<p>Job Creation</p> <p>Labor Relations</p> <p>Recognition (Corporate)</p>	<p>Human and Employee Rights</p> <p>Workforce Diversity, including Sexual Orientation</p> <p>Environmental</p> <p>Corporate Governance Metrics</p> <p>Auditing Practices</p> <p>Board Accountability</p> <p>Board Composition</p> <p>Board Independence</p> <p>CEO Compensation</p> <p>Company Ownership</p> <p>Shareholder Rights</p> <p>Takeover Defenses</p>	<p>Gambling</p>	<p>Tobacco</p> <p>Alcohol</p> <p>Adult Entertainment</p> <p>Animal Testing</p> <p>Bioethics</p> <p>Firearms</p> <p>Life/Choice</p> <p>Military</p> <p>Nuclear Power</p>

Social & Geographic Criteria

- Focus Group consensus sample criteria recommendations
- **Weightings:** High is 2x Medium, Medium is 2x Low
- **Exclusions:** Gambling (use 20% threshold)
- **Positive Scoring:** based on objective data
 - **Job Creation (High):** defined by Universe of Bay Area employers



- Labor Relations
- Recognition
- Diversity
- Sexual Orientation
- Environmental Toxics

Criteria	Data Elements	Importance	Weighting	% of Total
Labor Relations	Evaluation of relationships with organized labor	High	4	22%
Recognition	Workplace and Diversity	High	4	22%
Diversity	Total Workforce and Management	Medium	2	11%
Sexual Orientation	Non-discrimination Statement Same Sex Benefits	Medium	2	11%
Environmental	Toxic Release Information and Spills	Medium	2	11%
Human Rights	Global Sullivan and Global Compact	Medium	2	11%
Corporate Governance	Governance Metrics Grades.	Medium	2	11%

Tracking Error & Model UWBA Social Scores

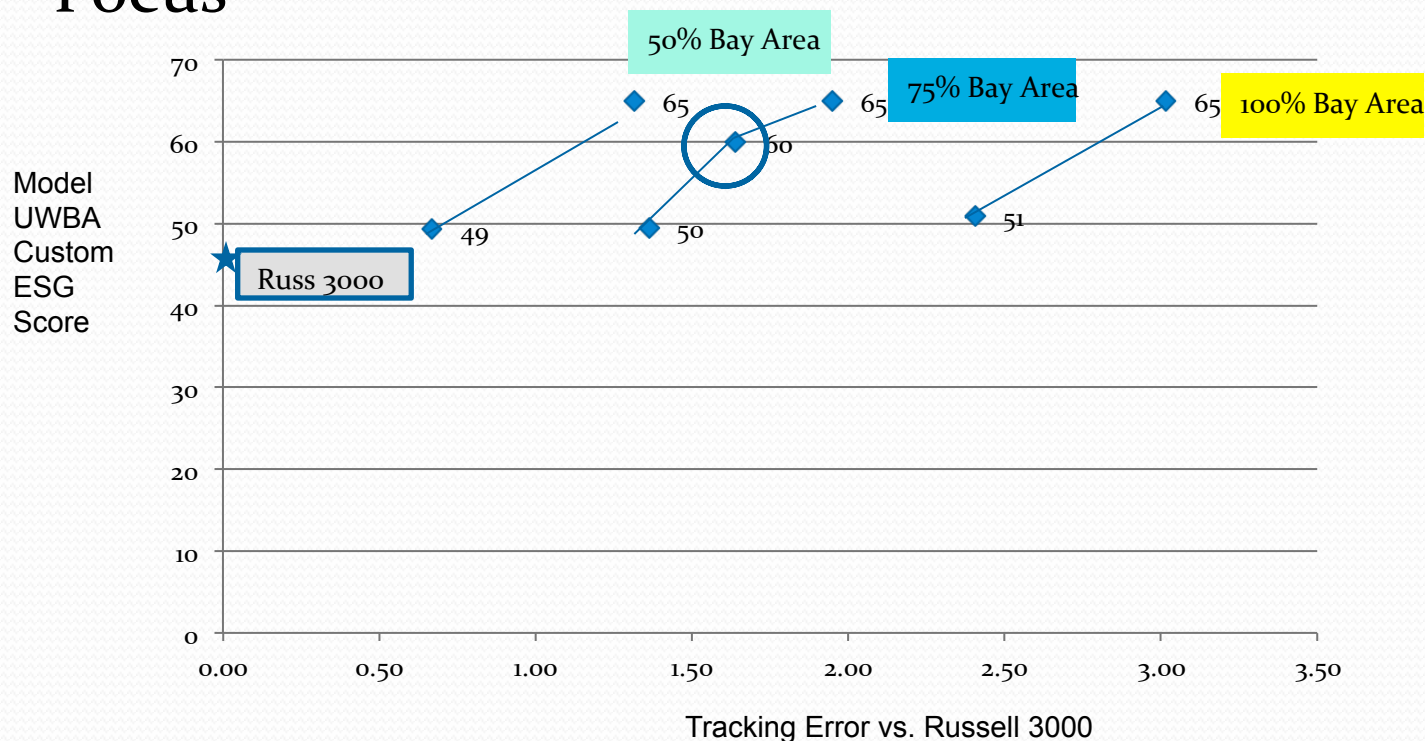
- Objectives to balance and trade-off:
 - Maximize our custom formula for ESG scores
 - Determine a minimum portfolio Social Score
 - Minimize tracking error to Russell 3000
 - Determine a maximum tracking error – risk tolerance
 - Geographic focus: HQ only or HQ focused
 - Bay Area companies as % of portfolio
 - 100%, 75% or 50% of the portfolio must be HQ' d in Bay Area

Sample Portfolios:

	Bay Area 19%	Bay Area Only -100%		Bay Area Co's 75% of portfolio			Bay Area 50% of portfolio	
Screened Portfolio Version	R3000 Index	1	4	8	10	13	7	11
Benchmark	R3000	R3000	R3000	R3000	R3000	R3000	R3000	R3000
Model Universes	R3000 Index	BBACAX+15	BBACAX+15	BBACAX+15	BBACAX+15	BBACAX+15	BBACAX+15	BBACAX+15
				+25% other	+ 25% other	+25% other	+50% other	+50% other
Universe - Holdings	2,940	252	252	1,982	1,982	1,982	1,982	1,982
Standard Deviation	20.43	20.57	20.65	20.48	20.52	20.49	20.44	20.47
Tracking Error vs. Benchmark, %	0.00	2.41	3.02	1.36	1.95	1.64	0.67	1.32
<i>Model UWBA Social Score</i>	<i>46</i>	<i>51</i>	<i>65</i>	<i>50</i>	<i>65</i>	<i>60</i>	<i>49</i>	<i>65</i>
Bay Area Weight%	19	100	100	75	75	75	50	50
Number of Holdings	2940	126	99	264	178	210	450	294
Average Market Capitalization, \$Billions	87.9	80.0	93.2	89.0	89.0	89.5	89.8	91.6

Choosing the parameters for the Model

- Custom ESG Scores, Tracking Error, Geographic Focus



UWBA Model Portfolio

“Impact Bay Area”

- \$4 million: 65% Equities, 35% Fixed Income
 - Benchmarks: R3000, Barclays Aggregate

Model Universe	BBACAX+15+25% other	Russell 3000 Index
Universe – Holdings	1,982	2,940
Standard Deviation	20.49	20.43
Tracking Error vs. Benchmark, %	1.64	0.00
<i>Model UWBA Social Score</i>	<i>60</i>	<i>46</i>
<i>Bay Area Weight%</i>	<i>75</i>	<i>19</i>
Number of Holdings	210	2940
Average Market Capitalization, \$Billions	89.5	87.9

- Fixed Income: Bay Area bonds
- Impact Report: to be developed
- Someday?
 - An “Impact Bay Area” family of funds:
 - Stocks, bonds, private equity, infrastructure, venture capital, real estate

Implications

- Market rates of returns + positive social impact can bring fiduciary assets like defined benefit plans and community and private foundations to impact investing
- Infrastructure investing
 - Transportation oriented affordable housing development
www.bayareatod.org www.grandboulevard.org
- Long term funding + source of liquidity
- Public/Private Partnerships
- Pledge 1-2% to local/regional investments

- With nearly three decades of experience in developing and implementing strategies in the institutional investment industry, **Lauryn Agnew** serves as a resource to non-profit organizations for investment consulting services and provides fiduciary education and trustee training for public fund and non-profit board and committee members. She also offers strategic marketing analysis and recommendations to firms with specialized investment strategies through her company Seal Cove Financial (www.sealcovefinancial.com) .
- Her investment experience includes the sell-side (Smith Barney and Lehman Brothers in institutional equity sales on the trading desk), the buy-side (Harris Bretall and Wentworth Hauser and Violich, as director of sales and marketing), and forming her own consulting firm as well as co-founding two investment management companies: a hedge fund and an asset management firm.
- Currently, Lauryn is a trustee on the Board of the San Mateo County Employees' Retirement Association (SamCERA), a defined benefit plan with \$2.5 billion in assets. She is the Chair of both investment committees at the United Way of the Bay Area and the Girl Scouts of Northern California, and is a member of the finance committee of the Immaculate Conception Academy of San Francisco. Born in Wyoming, Lauryn grew up in Montana and earned her BA degree in Economics from Whitman College in Walla Walla, Washington and her MBA in Finance from the University of Oregon. In the Bay Area, she is a member of the CFA Society of San Francisco and the Financial Women's Association of San Francisco.
- Please note: The United Way of the Bay Area was the initial seed ground for this study. It will follow developments in this new field with interest. UWBA has not endorsed and does not sponsor any particular investment strategy at this time.