

THE KRESGE FOUNDATION

Integrating Grants and Investment

Since 2007, the Kresge Foundation has been working to expand its suite of capital tools to accelerate its impact on issues facing cities and low-income Americans. The Foundation has built staff capacity and internal systems that now allow us to make loans, guarantees, equity investments and deposits in addition to grants. In September 2015, the Board of Trustees approved an ambitious plan to invest \$350 million through social investments by 2020, making clear that using a variety of financial tools is central to how the foundation works to bring about social change. The pool includes \$105 million in prior commitments and \$245 million that will be deployed using primarily program-related investments and a small pool for mission-related investments, which are market-rate investments from the foundations's corpus that align with programmatic priorities.

The Foundation reached several milestones in 2014, concluding a three-year budget cycle that has made more than \$55 million available to partners working to expand opportunity and create paths for vulnerable people to improve their life circumstance. The resources leveraged by these investments totaled nearly \$320 million last year. That's new capital for social good made available by investors who needed partners to reduce risk, to provide patient capital or a roadmap for working in an unfamiliar sector. We are encouraged by these collaborations that include financial institutions, private investors, other foundations and government agencies.

Kresge has put great emphasis on learning how to align its grant making and investing capacities towards the problems we seek to address. We have brought together staff with diverse skill sets to work together on the same issues. This has strengthened our ability to see problems—and opportunities—from different

perspectives. As a result, within the social investment portfolio are a number of excellent case studies for how grants have laid the groundwork for future investment. The Foundation has placed priority on identifying cross sector solutions to solve complex social problems. We know that grants alone are insufficient due to the magnitude and complexity of the issues the Foundation cares about and, as a result, we have evolved the way we work by using multiple capital tools as part of our response. According to the Foundation's President and CEO, Rip Rapson, "We're testing what it means to be problem-solvers first and foremost. That means starting with the problem and then, and only then, selecting the form of capital—whether financial, intellectual, or reputational—most suited to fixing it."

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— Rip Rapson

Going forward, the Foundation will continue to build out its social investment capacity which will allow us to recycle capital and leverage capital from other investors. We will deepen our engagement with the Program teams and the Foundation will create an investment initiative that utilizes grants, program related investments and market rate capital to increase the capacity of communities to create mixed use, mixed income development that promotes health, is deeply sustainable, offers access to transit, and preserves equity for low-income residents.

We are pleased to see a growing cohort of investors using capital to advance important social goals. The trail to this new era of impact investing has been blazed by other funders who have led the field to a new way of working. We are optimistic that Kresge's efforts and accomplishments will inform the work of others and, most importantly, help accelerate organizations and ideas at the forefront of social change.



Kresge's guarantee supports capital for small businesses in Detroit



A "pay-for-performance" investment funds on-site services in affordable family housing



A loan will support NeighborWorks organizations providing affordable housing, community development, and other services nationwide

Kresge Social Investments

2014 INVESTMENTS

Partnering for Impact

Partnering for Impact is a joint initiative of Kresge and the California HealthCare Foundation to support companies that have technology- or service-based solutions that extend the reach or the effectiveness of the safety net—principally community health centers and clinics—by increasing patient access to care and lowering the cost of providing care. A complementary grant from Kresge's Health Program will be used to evaluate the effectiveness of the solutions.

Omada Health

San Francisco, Calif.
\$500,000 loan

Omada Health works in the emerging field of digital therapeutics. This investment extends the reach of an online pre-diabetes program to low-income populations via pilots in select clinics and increased access among Medicaid plans.

Seamless Medical Systems

Santa Fe, N.M.
\$750,000 loan

The investment in Seamless accelerates the development of a technology product designed to improve the quality of patient intake, assessment, and data, reduce billing errors and improve clinical office efficiency.

Strong Families Fund

The Strong Families Fund is a joint effort by Kresge and the Robert Wood Johnson Foundation to finance social-service coordination in affordable family housing. The fund is a 10-year pilot intended to demonstrate how a pay-for-performance model can incent developers and investors to ensure that financing for service coordination is made available; and how a steady financing source for on-site service coordination produces measurably better outcomes for residents and investors as well as savings for the public sector. Kresge has committed \$7.75 million to the initiative including \$6.5 million in social investment commitments and a \$1.25 million grant to the New York-based Corporation for Supportive Housing,

which will administer the fund. The Robert Wood Johnson Foundation will provide \$4.8 million in grant funding a significant portion of which will fund the outcome payments.

Community Development Trust (CDT)*

New York, N.Y.
\$3 million loan

Kresge, CDT, and Westpath, the pension and investment fund serving the United Methodist Church, have partnered to provide permanent financing to housing projects in the Strong Families Fund. Kresge's loan provides credit enhancement and reduces the cost of capital to projects.

National Affordable Housing Trust*

Columbus, Ohio
\$2 million loan guarantee

Great Lakes Capital Fund*

Lansing, Mich.
\$1.5 million loan guarantee

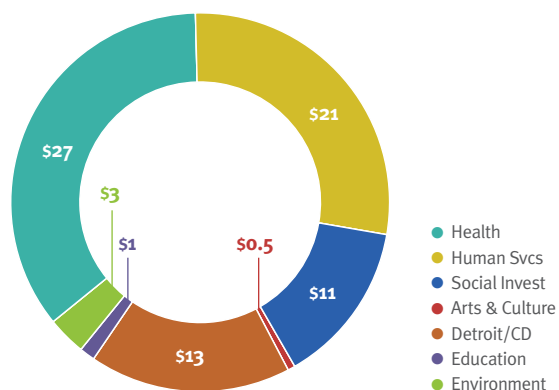
Using guarantees, the Foundation will release project level reserves for projects in the Strong Families Fund enabling those funds to be used for resident service coordination. Our partners in the Fund are Goldman Sachs Urban Investment Group, Key Bank, the National Affordable Housing Trust, and Great Lakes Capital Fund.

Healthy Futures Fund*

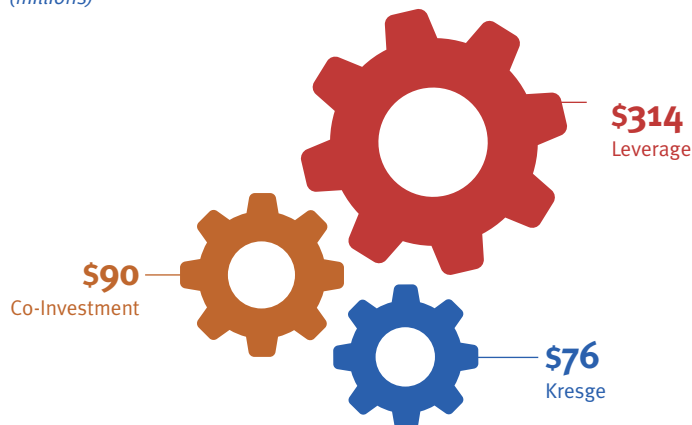
New York, N.Y.
\$1.25 million loan

Established by Kresge, Morgan Stanley and the Local Initiatives Support Corporation (LISC) in 2012, this \$100 million fund utilizes Low-Income Housing Tax Credits and New Markets Tax Credits to expand access to health care and affordable housing for low-income residents. It supports the construction of affordable-housing units with integrated health services, as well as the expansion of federally qualified health centers, fostering collaboration between affordable-housing developers and health care providers. This add-on investment builds on a previous commitment and was made in concert with increased commitments from Morgan Stanley and LISC.

Outstanding and Committed PRIs
(millions)



Leverage and Co-Investment
(millions)



Healthy Neighborhoods Equity Fund*

Boston, Mass.

\$1.8 million loan guarantee

This guarantee is matched by the Robert Wood Johnson Foundation and supports an initiative carried out by the Massachusetts Housing Investment Corporation and the Conservation Law Foundation. The fund is expected to invest in up to ten residential, commercial and/or mixed-use projects near current or planned public transit hubs, to track a set of health metrics related to those projects over time and to assess the long-term impacts of transit-orientated development on individual and community health.

Housing Partnership Network*

Boston, Mass.

\$3 million loan

The investment supports the BUILD Health Challenge, a multi-funder initiative of Kresge, de Beaumont and Robert Wood Johnson foundations and the Advisory Board, a Washington, DC-based company that advises hospitals nationwide. BUILD—Bold, Upstream, Integrated, Local and Data-Driven—is expected to support community initiatives to improve health in as many as fourteen low-income urban neighborhoods across the United States. This investment was made alongside related grant funding from Kresge's Health Program. At the end of 2014, funder commitments to the initiative totaled \$8.5 million.

Invest Detroit*

Detroit, Mich.

\$1 million loan guarantee

This guarantee to Invest Detroit supports a \$5 million loan from Goldman Sachs Urban Investment Group as part of its 10,000 Small Businesses (10KSB) initiative. 10KSB is designed help small businesses create jobs and economic opportunity through provision of access to business education, financial capital, and support services. Kresge's guarantee serves to offset a portion of the real and perceived risks of lending to small-business borrowers in underserved areas of Detroit.

NeighborWorks Capital (NWC)*

Silver Springs, Md.

\$5 million loan

This loan will be combined with \$2.5 million from NWC to provide the initial capitalization of the NeighborWorks Strategic Growth Fund which will offer enterprise-level financing to NeighborWorks member organizations providing affordable-housing, community development and other services in all 50 states and the District of Columbia. Financing will be made available to organizations seeking to invest in operational efficiencies, expand or create new revenue generating activities and finance capital contributions to new real-estate development subsidiaries. NWC and Kresge will work together to attract additional market rate capital to expand the fund.

Social Finance

Boston, Mass.

\$100,000 equity investment

This pay-for-success transaction supports New York State Workforce Re-Entry 2013 LLC, an effort to reduce recidivism in New York City and Rochester, N.Y. The investment allows the Center for Employment Opportunities to provide intensive services, including transitional employment and permanent job placement, to 2,000 recently released prisoners. A total of \$13.5 million has been raised for the project, primarily via private-sector investors. New York State and the U.S. Department of Labor will pay investors up to \$21.5 million in success payments for outcomes based on increased employment, reduced recidivism and completion of the job-training program.

South Carolina Community Loan Fund (SCCLF)*

Charleston, S.C.

\$500,000 loan

SCCLF supports the development of vibrant, sustainable communities by providing loans, technical assistance and advocacy for affordable housing, healthy food retail and community facilities and businesses. This loan was made alongside a \$450,000 grant from Kresge's Health Program allowing the expansion of the lender's healthy food financing and related activities.

Organizing Demand for Investment

Deploying capital to strengthen communities requires a pipeline of investable opportunities that produce both financial and social returns. In 2014, The Kresge Foundation, together with the John D. and Catherine T. MacArthur Foundation, launched a project designed to improve the ability of cities to attract and deploy philanthropic and private investment for public purpose. The project recognizes that mainstream markets often fail to meet the needs of low-income communities and that harnessing capital effectively to achieve important social and environmental goals requires a systematic approach.

Building on work begun at Living Cities, Kresge is advancing the concept of capital absorption, defined as the ability to attract and make effective use of various forms of capital. The Foundation is providing grant support and in-depth technical assistance to three cross-sector collaboratives that are committed to expanding their region's ability to use capital to meet identified community needs in the area of equitable transit-oriented development. The three grantees are: Mile High Connects at The Denver Foundation; Los Angeles Transit, Housing, Resources and Investment for a Vibrant Economy

(LA THRIVES) at the California Community Foundation and the Great Communities Collaborative at The San Francisco Foundation. The grantees meet periodically to share experiences and learn from each other.

Robin Hacke, a Senior Fellow at Kresge, together with the Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University and Strategy Lift, has published a series of papers and tools to help cities and regions assess and improve their community investment systems. Their research suggests that effective capital absorption requires clear strategic priorities, a visible pipeline of feasible deals and an enabling environment of policies, processes, resource flows and institutional practices and skills that support the execution of the pipeline. The research identifies interventions that can help produce a more robust set of investable opportunities that deliver community benefits, and reduce the development cycle and costs of transactions. This work is available at <http://kresge.org/library/community-investment-focusing-system>.

Kresge Social Investments *continued*

OTHER ACTIVE PROGRAM-RELATED INVESTMENTS

Artspace (2011)*

Minneapolis, Minn.
\$1 million guaranty

Calvert Foundation (2013)*

Bethesda, Md.
\$1.25 million guaranty

Capital Impact Partners (2013)*

Arlington, Va.
\$5 million loan

Coastal Enterprises Inc. (2013)*

Wiscasset, Maine
\$0.3 million loan

**Colorado Coalition
for the Homeless (2013)**

Denver, Colo.
\$3 million loan

**Community Health Center
Capital Fund (2008)***

Boston, Mass.
\$2.5 million

First Children's Finance (2008)

Minneapolis, Minn.
\$1 million

Freshwater Trust (2013)

Portland, Ore.
\$1 million loan

Goodwill Industries International (2013)

Rockville, Md.
\$3.3 million loan

Healthy Futures Fund (2012)*

New York, N.Y.
\$6 million

IFF (2012)*

Chicago, Ill.
\$5 million

Invest Detroit Foundation (2012)*

Detroit, Mich.
\$1 million

Living Cities Catalyst Fund (2011)

New York, N.Y.
\$2 million

Low Income Investment Fund (2012)*

San Francisco, Calif.
\$5 million

**Montana Community
Development Corp. (2013)**

Missoula, Mont.
\$600,000 loan guarantee

**National Federation of Community
Development Credit Unions (2013)**

New York, N.Y.
\$1.5 million loan

Opportunity Finance Network (2012)

Philadelphia, Pa.
\$10 million

The Reinvestment Fund (2011)*

Philadelphia, Pa.
\$3 million

Roca Inc. (2013)

Chelsea, Mass.
\$1.5 million loan

**Snapshot Dermatology
Holdings Inc. (2013)**

Palo Alto, Calif.
\$500,000 loan

**St. Vincent de Paul Society
of Lane County Inc. (2011)**

Eugene, Ore.
\$335,000

SUN Initiative (2011)*

Boston, Mass.
\$2.5 million

**This asterisk denotes an investment in a community development financial institution. A certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.*

The Kresge Foundation

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