

## THE KRESGE FOUNDATION

The Kresge Foundation began investigating in 2007 how it could use other forms of capital in addition to grantmaking to bring about and accelerate change in its seven programs.

Full-time staff members were hired in 2010 to work with the Board of Trustees and the staff to build investment systems and the foundation's capacity to evolve as a "social investor" using all forms of capital: grants, loans, deposits, equity, guarantees and, perhaps in the future, its corpus.

This investment capacity allows the foundation to:

- address problems that require forms of capital other than grants and bring a full complement of financial tools to bear on a market,
- bridge funding gaps in the market resulting from a shortage of capital, heightened risk, high transaction costs and unproven financial models, and
- preserve foundation resources.

### 2011: A Year in Review

In this overview, we provide a snapshot of Kresge's Social Investment Practice activities in 2011. During the year, we:

- implemented new policies to guide how we make and manage investments,
- completed investments with the Environment, Health, and Human Services teams,
- generated a pipeline of 2012 investments, and
- enhanced Kresge's presence in the social investment market by developing new relationships with lenders, practitioners and others.

Our guiding principles:

- We invest in organizations and programs that support the foundation's programmatic goals.
- We leverage capital from other sources, including financial institutions, private investors, other foundations, donors and government agencies.
- We seek to build a portfolio that manages risk over a spectrum of projects and asset classes.
- We accept heightened risk when commensurate with the opportunity for social impact.

### Infrastructure Developments

The foundation implemented a risk rating system to monitor investment risk and a cash management model to accurately project loan repayment. The risk rating system considers financial and organizational factors, including the borrower's credit, management tenure and experience, historical performance of the sector, and the amount and form of credit protection. A project's risk rating establishes the loss-reserve level held for the investment. This information is reviewed semi-annually and provided to the chief financial officer and controller as part of the foundation's annual audit. We also have added a "probability of loss" calculation to ensure the adequacy of the foundation's loan loss reserve.



The Social Investment Committee authorized the foundation to make loan guarantees—pledges to pay a borrower’s debt in case of default—up to \$50 million in 2011. Guarantees are a useful tool to meet a borrower’s financing needs, leverage capital from other sources and preserve the foundation’s resources. When making a guaranty, the sponsoring program contributes a modest portion of its grant budget to provide for future calls on the guaranty.

Kresge welcomed Chartered Financial Analyst Julie Hollinshead as Social Investment Practice portfolio manager in May 2011. Hollinshead worked at Munder Capital Management in Birmingham, Mich., for 16 years. There, she co-managed more than \$250 million and served as senior portfolio manager on its Small Cap Equity Team. Hollinshead is developing social investment opportunities with the Environment and Arts and Culture teams to advance each program’s strategy. She is working closely with IFF (previously known as the Illinois Facility Fund) to ensure full repayment of 14 Community Relief Fund loans that were made in 2009 and mature in 2012 and 2013.

### Repayments and Results

In 2011, Social Investment Practice worked with program staff and external partners in other foundations, government and financial institutions on a range of transactions. Here are a few examples:

- [\\$2.1 million repaid by Community Relief Fund and other borrowers, making it possible to recycle and redeploy these funds as future grants and loans.](#)
- a \$1 million loan guaranty made to Artspace was activated for a project in Waukegan, Illinois. Artspace is the nation’s leading nonprofit developer of affordable spaces for artists to live and work and an Arts and Culture team grantee. Kresge’s guaranty satisfied the reserve requirement essential to Raymond James, the equity investor in the project.
- a \$10 million loan to the Opportunity Finance Network to finance expansion of community development financial institutions in underserved, low-income communities. This commitment leveraged a \$6.6 million grant from the Wells Fargo Foundation and will fund as many as eight community development financial institutions. The interest rate on the 10-year Opportunity Finance Network loan is 1 percent.
- a \$2.5 million loan to Boston Community Capital’s Stabilizing Urban Neighborhoods Initiative closed, helping families in foreclosure restructure their loans and avoid eviction.

- a \$3 million investment in The Reinvestment Fund to retrofit non-residential buildings in Philadelphia that will achieve at least a 25 percent energy savings. This investment benefited from a \$5.5 million loan loss reserve funded by the Department of Energy and represents the first collaboration between the Environment Program and the Social Investment Practice.
- a \$5 million loan to IFF created the first partnership between a community development financial institution and two primary care associations. IFF and primary care associations in Indiana and Wisconsin will provide loans and technical assistance, including an innovative data-sharing platform, to health center borrowers.
- Kresge served as the catalyst for a joint venture between the Low Income Investment Fund and The Reinvestment Fund, in which each agreed to make a \$12.5 million loan (\$25 million total) available to federally qualified health centers.
- Kresge funded two of the largest nonprofit owners of affordable housing, National Church Residences and Preservation of Affordable Housing, to pursue health-related activities. The planning grant to National Church Residences and the State of Ohio’s Office of Health Transformation is developing a new financial model for building integrated health care and housing options for low-income Ohio residents with long-term care needs. This experimental program—using tax credits, an enhanced Medicaid rate and a Kresge guaranty—may lead to a new way of financing service-enriched housing.

### Lessons Learned

Grantmaking and investing can be two sides of the same coin. They operate differently but have the potential to achieve far-reaching results when used in tandem.

Small planning grants can be powerful tools in developing future transactions and engaging high-capacity partners in work and research. Planning grants help the foundation identify what works and build a robust future pipeline.

Repayment of the foundation’s capital is one indicator of success. Additional metrics are needed to fully gauge impact.

## Social Investments 2008-2011

This is a list of Kresge's active program-related investments:

### Artspace

Minneapolis, Minn.

\$1,000,000

A leader in developing, owning and managing affordable live/work space for artists by reclaiming abandoned buildings and renovating historic structures, Artspace promotes artist-community interaction, economic development and job creation. This unfunded guaranty substitutes for a cash reserve required by commercial investors for specific projects.

### Capital Link Inc.

Boston, Mass.

\$2,500,000

The national nonprofit organization provides high-quality, affordable advisory and lending services to nonprofit community-health centers seeking to finance capital projects that expand community-based health care. This loan helps finance the expansion of the Community Health and Social Services Center in Southwest Detroit.

### Coastal Enterprises Inc.

Wiscasset, Maine

\$760,000

Through 30 years of financing and community development work, the organization has supported the growth of small and medium businesses, and created or retained thousands of jobs. CEI has financed more than 1,200 units of affordable housing and dozens of community facilities for Maine residents. This program-related investment supports job creation and finances small-scale enterprise throughout communities in Maine.

### Feeding America

Chicago, Ill.

\$2,500,000

The nation's leading domestic hunger-relief organization utilizes a vast network of food banks and charitable agencies to collect and distribute 2 billion pounds of food to more than 25 million Americans annually. Kresge's program-related investment (a five-year, low-interest loan) helps finance the purchase of 20 to 25 refrigerated trucks, which will increase food-delivery capacity.

### First Children's Finance

Minneapolis, Minn.

\$1,000,000

First Children's Finance is a community development financial institution that provides financing and advisory services in 10 states for child care facilities serving low- and moderate-income families. Kresge's five year, low-interest loan supports increased lending to human service and community development organizations in a five-state region.

### IFF

Chicago, Ill.

\$2,500,000

\$5,000,000

IFF is a regional community development financial institution that provides loans and real estate consulting to nonprofits serving low-income communities in the Midwest. The first investment increases lending in Illinois, Indiana, Missouri, and Wisconsin. A second investment specifically supports loans to health-care centers in Wisconsin and Indiana.

### Community Relief Fund

Kresge made program-related investments in 2009 in 14 human service organizations that were providing food, shelter and other emergency services during the economic crisis. These three-year zero-interest loans were designed so that the organizations might better meet the increasing demand for their services.

#### Bedford Stuyvesant Restoration Corp.

Brooklyn, N.Y.

\$500,000

#### Calcutta House

Philadelphia, Pa.

\$250,000

#### Chicanos Por La Causa Inc.

Phoenix, Ariz.

\$500,000

#### Community Assistance Programs

Chicago, Ill.

\$300,000

#### East End Cooperative Ministry

Pittsburgh, Pa.

\$400,000

#### Harvest Hope Food Bank

Columbia, S. C.

\$500,000

#### Help for Abused Women and Their Children Inc.

Salem, Mass.

\$250,000

#### House of Ruth Inc.

Pomona, Calif.

\$250,000

#### The Julian Center Inc.

Indianapolis, Ind.

\$300,000

#### Ohio Association of Second Harvest Foodbanks

Columbus, Ohio

\$500,000

#### Pathways PA Inc.

Holmes, Pa.

\$500,000

#### Project for Pride in Living Inc.

Minneapolis, Minn.

\$350,000

#### Tucson Center for Women and Children

Tucson, Ariz.

\$400,000

#### Virginia Supportive Housing

Richmond, Va.

\$250,000

### Living Cities Catalyst Fund

New York, N.Y.

\$2,000,000

The Catalyst Fund houses investments for Living Cities and its Integration Initiative, an effort that combines grant and investment dollars based on a competitive process to stimulate systemic change in five regions. Kresge's PRI supports the lending activity of various Living Cities programs, including the Integration Initiative.

### Opportunity Finance Network

Philadelphia, Pa.

\$10,000,000

Opportunity Finance Network is a national coalition of community development financial institutions that invest in opportunities that benefit low-income, low-wealth and disadvantaged communities. This 10-year, 1 percent loan helps fund the NEXT Awards, providing capital to community development financial institutions, which—in turn—lend to small businesses and nonprofit organizations in low- and moderate-income communities.

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## Social Investments 2008-2011

*Continued*

**St. Vincent de Paul Society of Lane County Inc.**

Eugene, Ore.

\$335,000

Since 1955, the human services organization has offered social and homeless services, affordable housing, and job training and placement to low-income individuals. Kresge's program-related investment—a linked deposit—provides additional funding for the purchase and renovation of a facility to house the Oakridge Service Center, as well as a five-year operating subsidy.

**The Reinvestment Fund**

Philadelphia, Pa.

\$3,000,000

The Reinvestment Fund is a community development financial institution with a mission of building wealth and opportunity for low-income communities through socially and environmentally responsible investing. This loan capital allows the fund to utilize credit enhancement stimulus money from the U.S. Department of Energy and provide financing for projects in southeastern Pennsylvania that reduce energy consumption by at least 25 percent.

**Ways to Work**

Milwaukee, Wis.

\$1,500,000

The national economic-empowerment program provides financial education and affordable loans to low-wage earners, enabling them to purchase used cars for transportation to jobs, school and other activities. This organization received a \$1,500,000 program-related investment over five years and a \$1,500,000 grant in 2008 to support the program's expansion plans.