Impact Investing
Frequently Asked Questions

General

Q: Why is GCF doing this?
A: There is a gap between the need for capital for important community projects and what the private market will provide. A “lever” is needed to bring additional investors to the table. Philanthropic dollars can pave the way for other investors by evaluating both social and financial return, and by conducting due diligence on opportunities that the private market would not otherwise consider.

Q: Does GCF have any experience with this kind of investment?
A: Impact investing is the intentional use of financial assets to achieve a social or environmental return, and at the same time generate a financial return. It is a logical extension of work we’ve been doing for many years to grow charitable resources for our region. Starting in 2001, we added new tools – loans and equity investments – to our grantmaking. Offering these types of opportunities to our donors is a way to bring even more capital to important community projects.

Q: Do other foundations have programs like this?
A: Many private foundations and community foundations make impact investments using their discretionary grant funds. GCF will be the first community foundation to offer a portfolio of long-term investment opportunities to its donor advised fundholders.

Details of the Deals

Q: How do you find the deals to invest in?
A: GCF is very familiar with the nonprofit organizations in this community across a broad spectrum of community and economic development, the environment, education and more. We have a strong preference for working with experienced “intermediaries,” organizations that assemble capital for investment in a particular sector and have the expertise to select the best deals as our “agent.” In some cases, GCF has approached nonprofits to explore investment opportunities. In other cases, GCF has been approached with specific opportunities for consideration. Both pathways are promoted.

Q: What criteria do you use to select the deals?
A: Three basic criteria: (1) Social return – will the project make a measurable difference in community prosperity? (2) Expertise – does the organization have the necessary management and financial capacity? (3) Financial return – does the project have realistic success targets and means of repayment?

Q: How are impact investments different than grants? Can the nonprofit accomplish different things with this money than with a grant?
A: When you make a grant, you expect to make a difference in the community, but not to get the money back. When you make an impact investment, you expect to get the money back with interest. An example is a community development corporation such as Working in Neighborhoods (WIN). You could give a grant to WIN so its staff could identify affordable housing opportunities. And then you could make an impact investment – a loan in this case – so that the group could actually develop the housing. The source of repayment for the new house is the home buyer.

Q: What is the expected financial return?
A: Although the rate of return will vary by deal, GCF expects to generate return of capital plus 3% to 5% (net of fees) from most deals. While it may be possible to generate a higher market rate of return, this is not our goal or expectation. Our primary purpose is to generate a social return consistent with our mission and strategy to create a more prosperous Greater Cincinnati.
Q: Who will monitor the deals?
A: Monitoring will occur at three levels: GCF staff, independent consultant experts, and an Impact Investment Committee comprised of volunteers who are experienced in judging investment opportunities.

Q: How will you know if a deal has had the intended results?
A: GCF will require periodic reports of both social outcomes, e.g., number of new jobs or affordable housing units, and financial results. Repayment schedules will be closely monitored. Donors will also receive regular written reports and be invited to semi-annual briefings on the investments in your portfolio.

Q: What happens if the organization defaults on the investment?
A: Although careful due diligence and working with proven organizations will mitigate defaults, we recognize that this is a possibility. It is GCF’s policy to carefully monitor delinquent payments and, if necessary, revise payment schedules to avoid default situations. However, if a borrower defaults, the Impact Investment Committee will determine whether there is appropriate recourse from the borrower or any of its guarantors.

Your Donor Advised Fund Assets
Q: How much of my donor advised fund can I invest in the deals? Is there a minimum and maximum?
A: The minimum investment is $10,000 - $50,000, depending on the deal. GCF recommends limiting impact investments to 20% or less of total assets in your donor advised fund. However, you can invest as much of your donor advised fund in impact investments as you wish, with the understanding that the assets will be “locked up” for the term of the investment and not available for grantmaking.

Q: How liquid is my investment? Can I make additional donor advised grants with the money that is invested in my selected deals?
A: The amount that you invest in each deal is not available for grantmaking during the term of the deal. You may continue to make grants with the remaining balance of assets in your donor advised fund. The amount available for grantmaking will be clearly spelled out in your regular fund account reports.

Q: Can I invest in more than one deal?
A: Absolutely! If your charitable interests cover multiple areas and GCF’s portfolio is a good match, we would be pleased for you to participate in multiple deals.

Q: Can I take a tax deduction when I use my donor advised fund to make an impact investment?
A: No. You received a tax deduction when you made contributions INTO your fund. This is simply a way to deploy charitable capital to improve the community.

Q. Can I do this type of investment directly (not through my donor advised fund)?
A: Not through GCF at this time. A donor advised fund is the vehicle that enables you to recycle your charitable dollars. You may be able to make a private investment in some of these deals, however.

Q: How will I know when the investment principal and any return have been put back into my fund for grantmaking?
A: You will know the approximate timetable for return of capital into your donor advised fund based on periodic written reports and in-person briefings. We will also notify you in writing, and you will be able to check your fund balance for grantmaking at any time using our online access portal for donors.

Q: Can the money invested be lost?
A: As with any type of investment, there is always the risk of loss. If a loan or equity investment should default, and GCF is unable to pursue acceptable recourse, then the investment will be converted to a grant. While GCF cannot provide absolute assurance against the risk of loss, the due diligence process and close monitoring will help to mitigate this risk.