

Bay Area



## Impact Investing Initiative

**It's been 5 years!**

**March, 2018 Update**

Five years ago we launched the Bay Area Impact Investing Initiative. Our mission was “to develop a blueprint to increase the quantity and effectiveness of impact investing in the Bay Area.” Hundreds of interviews, thousands of hours and dozens of volunteers combined to develop a proposal for a collaborative effort to focus on positive social and environmental impact in the Bay Area while making competitive financial returns. The BAIII grew from a research effort to align endowment investments with mission, which started two years prior. Our broad impact goals include long term sustainability, shared prosperity, and resilience across the Bay Area.

The BAIII blueprint calls for a new physical and virtual PLACE that will be an investment company, a network platform to share ideas and contacts, and a clearinghouse for matching resources to solutions in our Bay Area. With a common place, or Center, we can invest locally for our mutually shared goals and values, connect our assets to our community, participate in place-making across the capital stack, and promote regional sustainability, shared prosperity and resilience. The Center would consolidate assets from a variety of investors under institutional fiduciary standards of performance expectations and due diligence while tracking impact. A Center with assets to invest locally could promote deal flow throughout the capital stack. With scale, these community oriented funds could be open to individual investors as well. The Center would provide local opportunities to help private asset owners meet their thematic, regional, investment, and philanthropic goals, and connect investors, grantmakers, and public resources for the long term benefit of the Bay Area.

In December 2012, Lauryn Agnew published the research study “Impact Investing for Small, Place-Based Fiduciaries” for the United Way of the Bay Area. You can download the paper [here](#) or [view it on the Federal Reserve's website](#).

**BAIII Article: *Place based impact investing: How to invest in your own backyard*:**

<https://cornerstonecapinc.com/place-based-impact-investing-how-to-invest-in-your-own-backyard/>

This is a link to the short article in the Cornerstone Capital's monthly magazine on “Proximity” from December, 2016, that summarizes the BAIII concept and recommendations. It is based on Lauryn Agnew's chapter on “Regional Impact Investing for Institutional Investors - The Bay Area

Impact Investing Initiative”, which is included in the Rutledge Handbook of Social and Sustainable Finance and Oxford University, 2017.

Facebook is a local example of an investment moving through the regional capital stack:

Not so long ago, angel, venture capital, and private equity investors first invested in Facebook, as a high risk start-up. Later, a Bay Area based institutional direct lender made a direct loan to Facebook in its early days when it couldn’t qualify for a traditional bank loan. Today, the BAIII public equity portfolio would hold the publicly traded shares of Facebook and we would engage with the company on ESG issues such as promoting diversity in their ranks, for example. The BAIII could also work with Facebook and other organizations to address the transit and employee housing issues that our mutual regional success contributes to, through public private partnerships. We would have a common interest too, in working with Facebook on environmental efforts to protect the Bay and its infrastructure as well as the Facebook campus from sea level rise.

[Fed Centerville link presentation...video from Fed](#)

*Please note: the information given in the summaries below is based in interviews, documents and websites provided by each investment manager. Past performance is no guarantee of future returns. This is not an offering.*

## **The BAIII Model Portfolios**

The following asset class-based portfolios represent regional investments designed to deliver benchmark returns and have a positive social or environmental impact on the Bay Area.

### **BAIII Stocks:**

In 2011, we developed the strategy for a Bay Area focused portfolio that could have a positive impact on the mission to reduce poverty in the Bay Area. The strategy integrated ESG factors in identifying ‘companies that offered good jobs, good environmental stewardship and good management.’ The combination of using a universe concentrated in Bay Area companies, overweighting higher ranked ESG scoring companies, and optimizing the portfolio to track the Russell 3000 benchmark has provided strong performance over the period 2011 - 2017: outperforming its benchmark, **15.79% vs. 13.45%**, annualized over 7 years.

To reduce single manager risk, we combine this custom strategy, with its ESG integration and geographical concentration, with an active strategy by HIP Investor that incorporates its ESG-factors HIP ratings systems to build portfolios, and a passive index fund, BlackRock’s Russell 3000, that includes corporate engagement and activist voting policies. This multi-manager approach with a variety of styles suggests we are prudently seeking market-like returns with market-like risk, AND a local impact through corporate engagement.

The underlying strategy and performance for the BAIII Custom Equity portfolio is discussed in depth on the BAIII.org website along with descriptions of the HIP Investor strategy and local corporate engagement opportunities. [READ MORE>](#)

### **BAIII Bonds:**

The BAIII Fixed Income portfolio update discusses the strong performance and targeted impact themes, with many examples in the Bay Area. We show particular local housing bonds which are high impact instruments for a place-based impact investor. We will also own short, medium and long term bonds from a variety of issuers, corporate bonds with ESG strengths, infrastructure project bonds, short term lending to local small and medium sized businesses, and middle market financings for growing businesses. The model BAIII Fixed income strategy would have beaten its benchmark with its combination of managers: **4.00% vs. 2.25%** for the Barclays Aggregate. [READ MORE>](#)

### **BAIII Real Estate**

The BAIII Real Estate strategy and its 4 managers cover a wide range of real estate investments: a portfolio of sustainable REITS and real estate stocks, Bay Area real estate loans to non-profit organizations, and two building developers who add value in residential, commercial, and industrial properties by building sustainably, with examples here in the Bay Area. Our regional housing crisis, compounded by our strong economic environment, has shown us that new developments in old neighborhoods can embrace the best of what we know about community development, sustainability and resilience. For further information about the real estate strategy and some examples about meeting local housing needs and tapping into the “Green Premium” [READ MORE>](#)

### **BAIII Infrastructure**

The BAIII Infrastructure strategy illustrates the wide variety of investable opportunities through the financings of the California Infrastructure Bank, the Bay Area Transit Oriented Affordable Housing Development Fund, and in renewable energy strategies. Long term investors can fund infrastructure improvements around the Bay Area, in a portfolio of bonds, projects, developer loans, and public private partnerships that focus on transit and housing, water management, power, and energy sources. For more examples, [READ MORE>](#)

### **BAIII Private Equity**

The BAIII Private Equity strategy would have similar goals as the Bay Area Council’s Growth Equity Fund, (2003-2013), a \$75 million fund dedicated to investing locally. That high performing track record (24.4% IRR) provides evidence of capturing the innovative and transformative

power of private equity investing when used for establishing companies and creating jobs in low-to-moderate income neighborhoods around the Bay Area. Silicon Valley venture capitalists have demonstrated that investing here to build and grow companies in the Bay Area is vital to our region's future and that this is the center of the private equity universe. Focusing on new technologies that can solve some of the world's most pressing needs will continue in the Bay Area and we can be part of that with a number of proven private equity investment companies. Consolidating small portions of larger portfolios to one specialized fund provides better diversification, access and community impact. [READ MORE>](#)

### **BAIII Super CD-Note**

The BAIII Super CD is designed to be a tool to increase the flow of capital to the Community Development Financial Institutions (CDFIs) around the Bay Area whose mission is to invest locally, in small businesses and nonprofits. Using the technology platform offered by C-Note, we can grow and deploy assets into this 'up close and personal' savings and investment vehicle through a select group of highly vetted CDFIs. [READ MORE>](#)

The BAIII Family of Funds: 6 strategies



These 6 portfolios, each representing a single asset class, can be the building blocks for all investors to customize their impact portfolios for their unique risk, return and impact goals.

**Other BAIII news:**

[READ MORE>](#) about the BAIII 's new website and video, new research, and the impact investing start-ups we work with in the Bay Area:

- Verhouse [www.verhouse.com](http://www.verhouse.com)
- HubSV [www.hubsv.com](http://www.hubsv.com)

Thank you for your interest and support. We would welcome your feedback. You can keep in touch with us, sign up on the website, and contact us at

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