



SOCIAL IMPACT INVESTING

Catalyzing Meaningful Social Change

CLEVELAND
Foundation

ESG VERSUS SRI VERSUS IMPACT



ESG (Environment, Social, Governance)

- ***Considers*** ESG factors

SRI (Socially Responsible Investment)

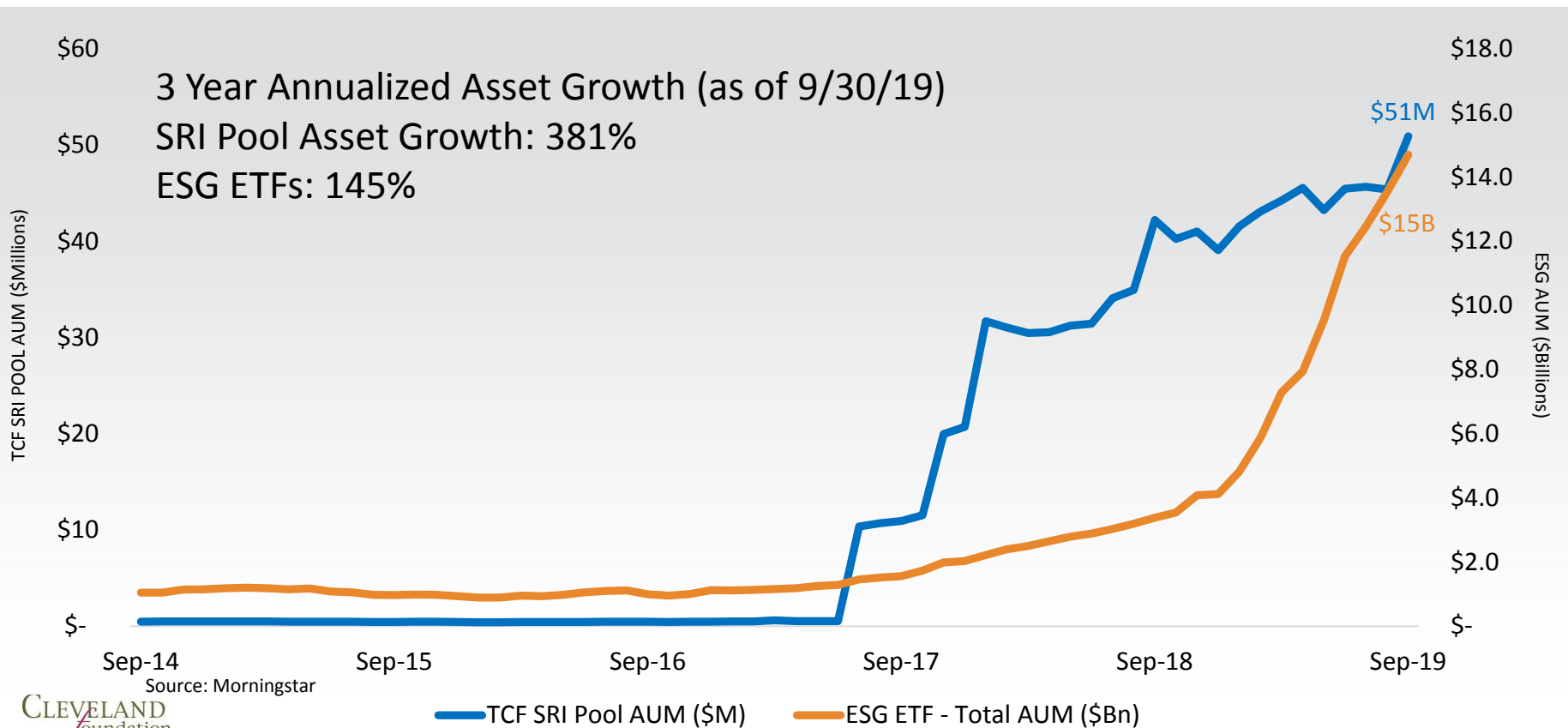
- ***Based*** on ESG factors

Impact Investment

- Seeks to make a direct impact on environment or society

Disclaimer: I will still likely use these interchangeably!

ESG INVESTING IS ATTRACTING ASSETS



EVOLUTION OF SRI POOL AT CLEVELAND FOUNDATION

Phase 1

Years: 2001-2016
AUM: \$0.5M

- **Investment Objective:** Concessionary
- **Inv. Diversification:** US Large Cap Equity
- **Screens:** Only exclusionary screens
- **Alignment:** Externally determined

Phase 2

Years: 2016-2018
AUM: \$25M

- **Investment Objective:** Market Rate
- **Inv. Diversification:** Multi-asset class
- **Screens:** Positive and negative screens
- **Alignment:** Externally determined

Phase 3

Years: 2018-Present
AUM: \$50M

- **Investment Objective:** Market Rate
- **Inv. Diversification:** Multi-asset class
- **Screens:** Positive and negative screens
- **Alignment:** Cleveland Foundation driven, UN SDGs

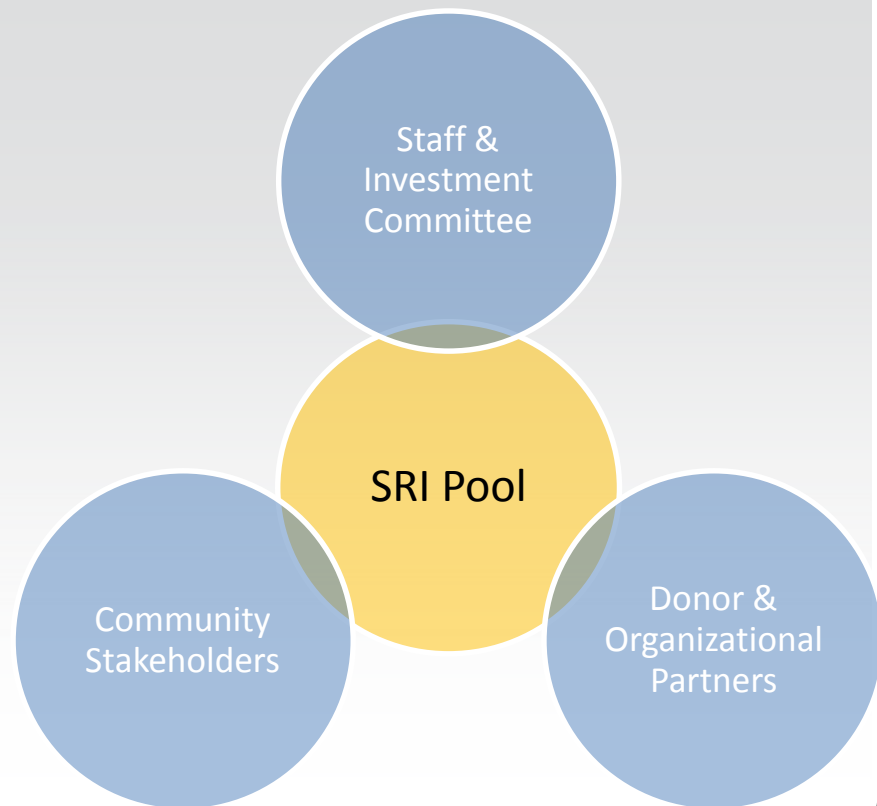
ALGINING THE POOL WITH OUR VALUES

Defined our values

- Value: (ie. Youth Violence Prevention)
- Issue area (ie. Civilian firearms)
- Threshold (ie. No exposure)

Rank by alignment to core mission

Focus on commonality across stakeholders



MEASURING IMPACT: SCREENING USING SOCIAL SCORES

Analyzed corporate data across issues areas

- Transparency, policy, performance, engagement

Peer rank against industry by issue area

Allocate to issue areas

Roll up security holding for portfolio score

75% Environment 25% Human Rights	Total Environment Score	Total Human Rights Score	Total Social Score
Company A	95	20	76
Company B	67	70	68

AVOIDING THE SLIPPERY SLOPE



Defined goals for the portfolio

- Investment: return target, risk tolerance
- Impact: Intensity of our value impact “Social Score”

Iterative quantitative evaluation process

- How does inclusion impact our investment objectives
- How does inclusion impact our “Social Score”

DATA DRIVEN PORTFOLIO CONSTRUCTION

	Russell 1000	Cleveland Foundation's Diversity Portfolio
Forecast Tracking Error (%)	0.00	0.42
Forecast Beta	1.00	1.00
Forecast Volatility (%)	11.04	11.05
Number of Stocks	972	400
Dividend Yield (%)	1.89	1.92
Social Score	42	55

Understanding Impact / Risk trade off

- Data gave our Investment Committee comfort to increase our racial and gender diversity impact

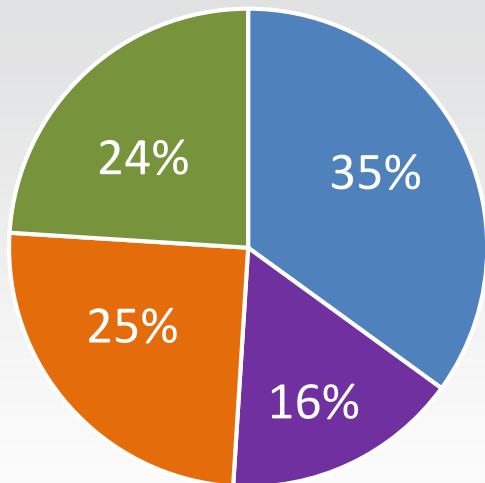
SRI PORTFOLIO TODAY: ALIGNED IMPACT

- Social Score: 55
- Cleveland Place-Based tilt
- Gender and Racial Diversity in leadership: 20% women and/or minority representation on board and executive teams
- Exclusions: Fossil Fuel, Private Prisons, Civilian Firearms, Payday lending

Issue Matrix	High	Medium	Low
Environment	Environment Perf.	Climate Change	
Social	Human Rights, Diversity	Workforce	Community / Politics
Governance	Board Accountability		

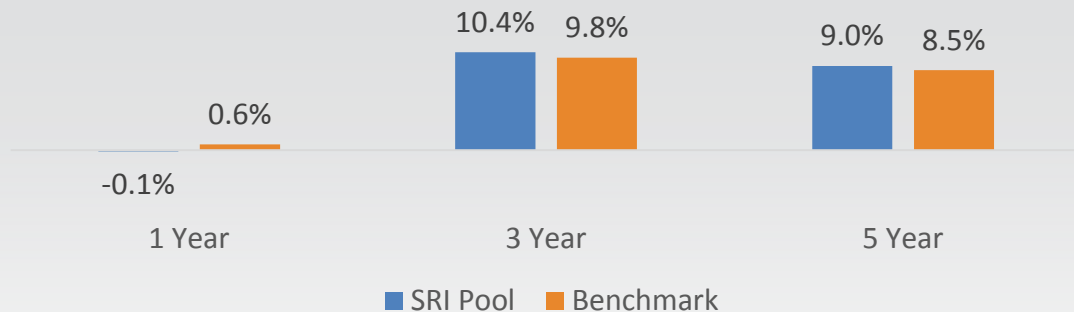
SRI PORTFOLIO TODAY: COMPETITIVE RETURNS

Asset Allocation
September 30, 2019

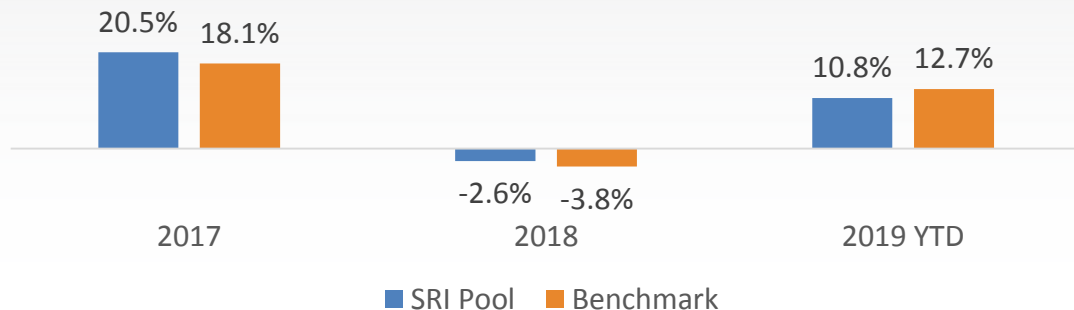


■ US Large Cap Equity ■ US Small Cap Equity
■ International Equity ■ Cash & Fixed Income

Rolling Performance – As of 9/30/19



Calendar Year Performance – As of 9/30/19



HOW WE DRIVE IMPACT ACROSS OUR ASSET BASE

Maximizing Social Return

Maximizing Financial Return

Grants

Recoverable Grants

PRIs

MRIs

SRI Pool

Flagship Pool

UNLOCKING CAPITAL FOR GREATER GOOD: RECOVERABLE GRANTS

Recoverable Grants

Thinking creatively on how we can leverage the impact of our grant making to get the multiply the “good” each dollar generates

- A grant that can be recovered, even in part allows us to recycle that capital, multiplying the impact of those dollars
- Over the last 20 years we have deployed millions in recoverable grants and have experienced a high recovery rate allowing us to nearly double the impact of those dollars



UNLOCKING CAPITAL FOR GREATER GOOD: PRIs

Program Related Investments (PRIs)

PRIs are below market-rate loans, equity investments, and bank deposits or debt guarantees that the Cleveland Foundation uses to fill capital gaps and address community issues.

- As regulated by the IRS, PRIs must be made for the primary purpose of accomplishing a charitable outcome and not primarily for financial gain.
- The Cleveland Foundation was the first community foundation in the United States to deploy a PRI in 1982 when it advanced nearly \$4 million to purchase the land and buildings that saved Cleveland's Playhouse Square from demolition.



UNLOCKING CAPITAL FOR GREATER GOOD: MRIs

Mission Related Investments (MRIs)

The Cleveland Foundation supports early-stage private equity and venture capital, “B Corps,” and public or private companies that are aligned with our mission.

- Our MRIs frequently center on job creation, economic development, research, and technology advancements that will provide impact for the community.
- We also look for environmental and sustainable impact investments, housing development investments, and financing forentrepreneur start up companies.



FLAGSHIP POOL: DIVERSITY IN INVESTMENT MANAGEMENT

No change in our investment selection criteria

We believe diversity in assets, securities and perspective all create value

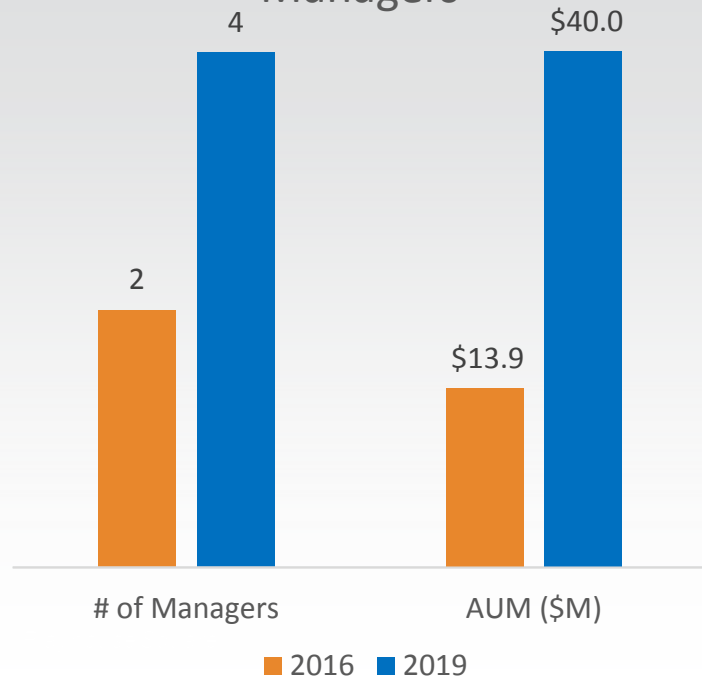
“Rooney Rule” approach

- Diverse manager finalist requirement for every new investment search mandate

Broaden the our bench list

- Set a goal to meet with diverse managers
- Evangelizing to other institutions!

Increase in Diversity
Managers



OTHER FOUNDATIONS ARE DOING THIS AS WELL

Kresge Foundation launches "25% by '25" and pledges to invest one-quarter of U.S. assets in diverse-owned firms by 2025

First private foundation signatory to ABFE's "Diversity in Foundation Asset Management Pledge" to expand gender and racial diversity among endowment asset managers

April 3, 2019

The Kresge Foundation announced Wednesday that by 2025, 25 percent of its U.S. assets under management will be invested in female and diverse-owned firms. The pledge was unveiled at ABFE's annual conference, which is being held here this week. As a testament to this commitment, Kresge is the first private foundation signatory to ABFE's "Diversity in Foundation Asset Management Pledge," a challenge to encourage philanthropic and institutional endowments to take concrete steps to expand gender and racial diversity among their asset managers.

Manager Selection October 23, 2019

Legislators Urge Endowments to Boost Asset Manager Diversity

NACUBO says Congress members are preaching to the choir.



Six members of Congress have sent a letter to the National Association of College and University Business Officers (NACUBO) calling for greater diversity among asset managers handling endowment funds of higher education institutions.

The letter cited recent research from the Knight Foundation that found that women and minorities manage a mere 1.3% of the \$69 trillion asset management industry. The letter also cited a 2018 NACUBO-TIAA survey of 802 institutions in which only 4% had a diversity and inclusion policy for hiring managers.

Pensions & Investments

June 06, 2019 01:00 AM

Princeton's endowment chief expands diversity efforts

Bloomberg



Nassau Street across from the Princeton University campus

Bloomberg

Princeton's endowment chief is stepping up efforts to bring more women and minorities into a money management industry dominated by men.

IMPACT INVESTING GOAL \$150 MILLION BY 2023

On May 7, 2019, the Cleveland Foundation publicly announced its social impact investing program during its Annual Meeting with more than 1,600 people in attendance.




CRAIN'S CLEVELAND BUSINESS

May 07, 2019 04:15 PM

Cleveland Foundation will commit \$150 million to increase its community impact

JAY MILLER



CLEVELAND
Foundation

The local philanthropy is expanding the kinds of investments it will make to have a greater social, economic and environmental influence on the area.

The Cleveland Foundation is expanding the kinds of investments it will make to have a greater social, economic and environmental influence on the Cleveland area.

The 105-year-old community foundation is announcing at its annual meeting on Tuesday, May 7, a plan to allocate \$150 million in capital for what the nonprofit world calls social impact investing by the end of 2022.

Senior vice president and CFO Rosanne Potter said that for the Cleveland Foundation that means investing in early-stage capital funds, biotech funds, sustainable energy funds and even Opportunity Zone funds that are focused on developing businesses and projects in the Cleveland area.

"We're interested in investing in funds that have a significant if not 100% of their funds invested in Cleveland proper," she said. "We want partners that will invest hard dollars in Cleveland. That's our tagline: 'Hard dollars in Cleveland.'"

The Cleveland Foundation, like other foundations, has since its beginning in 1914 made grants from the profits it earns on its endowment assets — the bequests from donors, that now total about \$2.5 billion — to nonprofit organizations that benefit the social, educational, artistic and economic well-

PARTNERING FOR SOCIAL IMPACT

