

'Investment Club' of Foundations Pays Off for Nonprofits

THE FIRST INVESTMENT made by a group of New York foundations that decided to pool their resources last fall isn't likely to generate much cash.

But for residents of the Port Morris neighborhood in the South Bronx, returns from the program-related investment, or PRI, will be "humongous," predicts

Plinio Ayala, president of Per Scholas, a work-force training nonprofit that received a \$250,000 loan from the New York Pooled PRI Fund. Per Scholas will use the loan to finish building an Urban Development Center, where local residents will get training and, eventually, jobs as software testers at Doran Jones, a business that will place an office on the site. Mr. Ayala expects the center to create 150 jobs within 18 months.

While there are other pooled

funds for foundations to make program-related investments, this one is different. Foundations typically pay into the pool and rely on a fund manager to pick investments, says John MacIntosh, a partner

at SeaChange Capital Partners, which manages and invests in the fund.

FUNDRAISING

The New York Pooled PRI Fund is more like an investment club that allows members to opt out of each investment opportunity and decide how much to risk.

Mr. MacIntosh talks weekly with the four other members of the investment pool — the Altman Foundation, the Heckscher Foundation for Children, the Thompson Family Foundation, and another family fund that requested anonymity — to discuss investments.

The terms of the Per Scholas loan

would not fly in the commercial market. The nonprofit is under no obligation to repay it until the fourth year of the loan, unless it generates enough money from Doran Jones, which will pay rent and share some of the revenue, to cover costs.

The loan rate ranges from 2 percent to 5 percent, depending on how much money Per Scholas makes.

If they wanted a heady return, the investors in the pool could have gone elsewhere. But Mr. MacIntosh says the investments are attractive because they are counted toward the foundations' required 5 percent payout rate. The decision-making process for each investment is simplified, he says, by letting foundations opt out. There's no messy "collective" decision making, and each foundation is able to decide how much it wants to invest. Each investment will likely be between

\$250,000 and \$750,000.

"As businesses go, they're not deeply attractive," he says. "But they have a tangible connection to the mission of the nonprofit."

Unusual Offer

The pool helped solve a problem Peter Sloane, chief executive officer at the Heckscher Foundation, had been struggling with for years.

He first began to explore program-related investments after Hurricane Sandy hit New York in 2012. Surging storm water forced staff members at the F.B. Heron Foundation, which has dedicated its entire endowment to mission-related investments, to vacate their offices. Mr. Sloane agreed to house the staff from F.B. Heron, but he had a quid pro quo request: If they wanted to share space, they had to teach him

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all they knew about program-related investments.

The more he learned, the more daunting such plays in the market seemed to be. Executing an investment was certainly too much for his staff of nine to handle. To feel comfortable making program-related investments, he'd have to staff up, he says, and hire lawyers, risk managers, and accountants.

As part of the pool, Mr. Sloane hopes to rely on SeaChange Capital's investment expertise and the wisdom of the other pool members.

"The risk for us is that the money doesn't come back and we've simply made a charitable gift," he says. "That's not a tragedy. We're in business to help kids."

Managing Expectations

Foundation managers looking to put money into a PRI shouldn't expect big financial results. In fact, they can sometimes go sour.

For the past five years the RSF Social Finance PRI, which invests

in food, agriculture, and environmental projects, has paid a fixed 1 percent rate of return to investors.

This year, however, the pool's portfolio will likely post a loss, which will reduce the value of each portfolio's total investment and result in a smaller payout.

Catherine Covington, the fund's manager, says she has surveyed all of the fund's participants to see how they feel about taking a hit. "Some are okay with it," she says. "Others are still tied to the mind-set of this being an investment. Having a loss triggers negative feelings among people about money and investing."

Ms. Covington is trying to nearly double the size of the fund, to \$6 million. At that scale, she says, it will be easier to cover costs and still provide a return.

To generate interest, Ms. Covington says it's important to remind people of the social goals of program-related investments.

"I wish PRI's didn't have the word 'investment' in it," she says.

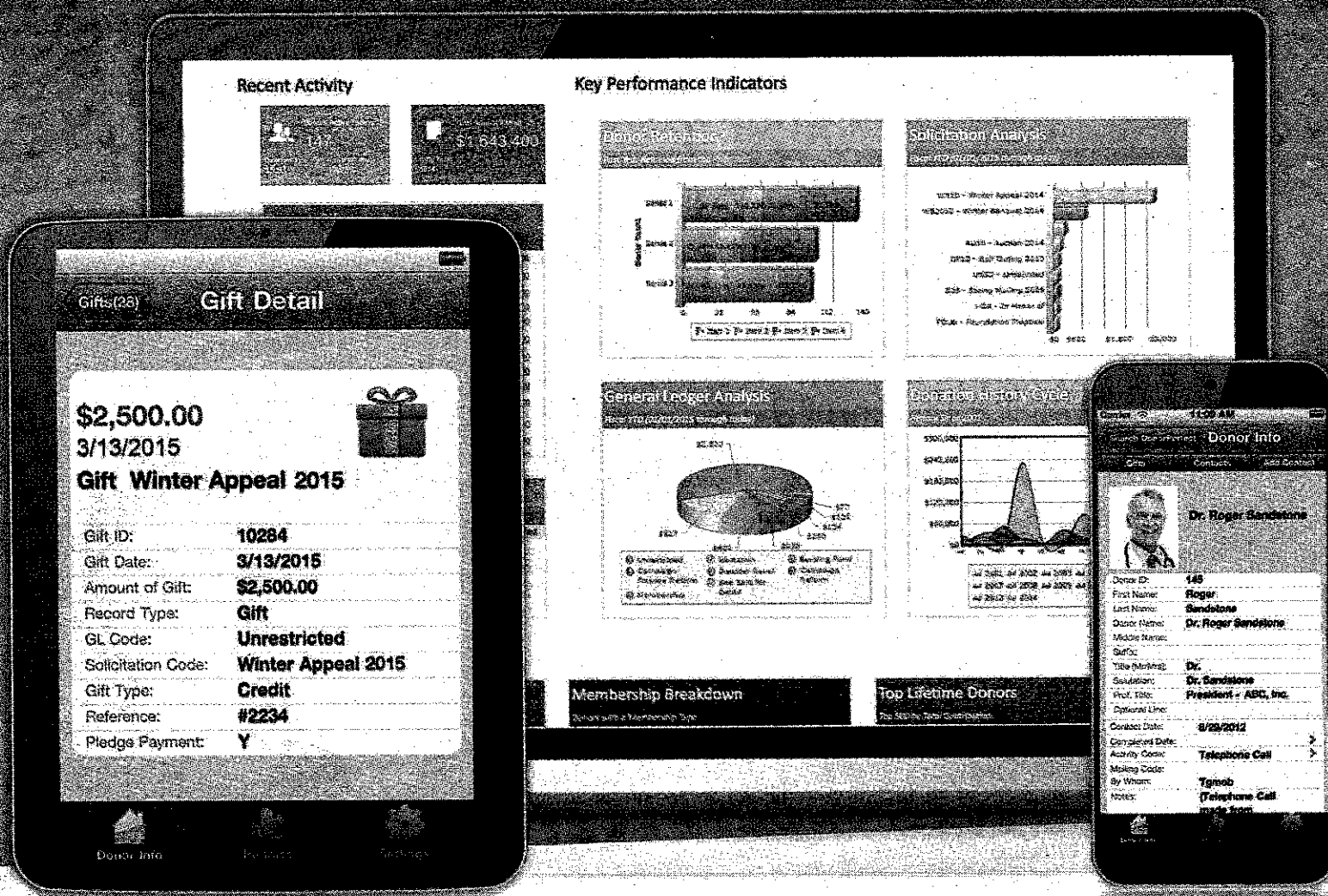
— ALEX DANIELS



KENNETH MOORE

BUILDING A FUTURE

Per Scholas, a work-force training nonprofit, received a \$250,000 loan from the New York Pooled PRI Fund, created by five foundations to share the risk of investing in charities. The money will help pay for a new Urban Development Center in the South Bronx.



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