YAMPA VALLEY
COMMUNITY FOUNDATION

Impact Investment Program

Adopted February 15, 2024

Contents

Local Impact Investment Guidelines

I. Guidelines Purpose

The Yampa Valley Community Foundation ("Foundation") Impact Investment Policy ("Policy") directs the Impact Investment Committee ("Committee") to adopt Impact Investment Guidelines ("Guidelines") to govern the operations of the Impact Investment Program ("Program"). These Guidelines detail Program practices and standards in the areas of investment impact, financial return, success and risk management, investment process, monitoring and evaluation.

II. Investment Objectives

1. Local Impact

The Program will make targeted Impact Investments in order to produce measurable social benefit consistent with the overall mission and vision of the Foundation. Investments will address both immediate and longer-term needs in the community not otherwise being met, thereby improving the quality of life and economic and social health of the Yampa Valley. Areas of focus may include, but are not limited to, economic development and workforce readiness, affordable housing and childcare. It will be responsive to needs identified by the community as necessary and appropriate for the Foundation to pursue.

2. Financial Return

The Program aims for a modest financial return of between 1% and 4%. The Committee will review the financial performance goals once the volume and risk return profile of the portfolio is better understood. Greater social impact may justify lower financial return.

3. Risk Mitigation

As with all investment activity, local impact investing comes with risk. These risks can be managed through strategic policies, processes and practices. The Committee, with support of the staff, will take reasonable measures to understand, document and mitigate risk at the transaction and portfolio level.

III. Success Management

The Program will balance investment impact, financial return and risk. Individual investments may have distinct impact, financial return and risk profiles. Balancing these priorities includes investment and portfolio level constraints and criteria, thoughtful investment process and assessment, ongoing monitoring and evaluation.

A. <u>Investment</u> Criteria and Preferences

Individual investments made from either the Impact Investment Asset Class or Impact Investment Funds will be reviewed using the following criteria:

Impact and Mission	▪ Investment is consistent with the Foundation and Program's mission and strategies and is likely to create lasting, measurable impact. ▪ Investment primarily serves residents in Routt and/or Moffat Counties. ▪ Investment does not harm Yampa Valley residents. ▪ Investment impact is unlikely to occur without the Foundation's investment. ▪ investment does not significantly compete with existing businesses.
Organization	▪ Investee has a meaningful financial or non-financial ("sweat-equity") investment in the project. ▪ Investee has a complete and reasonable business plan. ▪ Investee is experienced and has a positive track record, preferably in the community. ▪ Investee has capable leadership, stability, and resourcing to deliver the proposed impact.
Resourcing	▪ Foundation has sufficient capacity to manage the investment. ▪ Investment structure is simple. ▪ Investee can absorb the costs of the transaction or underwriting costs can be offset.
Repayment	▪ Investment has a clear source of repayment and timeline. ▪ The Investment is ideally secured by some form of collateral.
Reputation	▪ Investment does not pose a significant risk to the Foundation's reputation. ▪ No substantial evidence of community opposition to the investment. In the case of community opposition, the Committee and Board will thoughtfully consider the opposition and only support the investment if doing so serves a clear purpose. Any such decision will be clearly communicated to stakeholders.

Community Support	▪ Other anchor institutions are co-investing. ▪ Project has demonstrated community support through alignment with participatory planning process or investee-led community engagement.
Size	▪ Investment is less than 1% of the Foundation's total investable assets OR, if made from Impact Investment Funds, the amount more than 1% is newly contributed Impact Investment Funds.
Term	▪ Investment term is ideally 4 years or less. If made with Impact Investment Funds, the term is ideally 7 years or less.

B. Portfolio Criteria

The collective portfolio of investments is subject to the following criteria:

	Impact Investment **Asset Class Portfolio**	Impact Investment **Funds Portfolio**
Pace	▪ No more than 50% should be deployed in any single calendar year.	▪ Aim to deploy the funds in a way that increases the likelihood of accomplishing the stated impact objective while minimizing risk.
Return	▪ Across the portfolio, investments should strive to meet the Program's financial return objectives.	▪ Across the portfolio, investments should strive to meet the Program's financial return objectives.
Term	▪ Average investment terms should not exceed 5 years.	▪ Average investment terms should not exceed 9 years.
Concentration	▪ No more than 20% of the capital available for the Asset Class should be committed to a single investee.	▪ No more than 50% of the capital available for an Impact Investment Fund should be committed to a single investee ▪ Or the amount more than 50% is newly contributed Impact Investment Funds.

C. Investment Process and Assessment

Staff, Committee, and Board will use the following process to assess and close Program investments:

Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
Staff market program and identify, document, and conduct preliminary review of opportunities.	Committee considers opportunity and approves due diligence.	Staff, with assistance of Committee, if necessary, conduct or engage formal due diligence of investment.	Committee makes advisory decision on investment.	Board reviews Committee advisory decision and acts on investment.	Staff closes investment, monitors, and reports to Committee and Board.

The following tools are designed to assist the Foundation in the investment review and decision-making/evaluation process.

Investment Documentation

As outlined in the process above, Staff will be primarily responsible for collecting information about prospective investments through formal and informal means. The Foundation will use a form or other tools (e.g., CRM database) to organize conversations and materials collected throughout the prospective investment discovery process.

Some key data points that will be collected include:

- Alignment of the proposed investment with mission and local impact investing Program purpose and impact goals.
- Evidence of the organization's financial and managerial stability. Such evidence includes copies of recent tax filings, audits or reviewed financial statements and current budgets.
- A detailed business plan or proposal, including a description of the project and key attributes such as amount requested, term, proposed interest rate and repayment schedule.
- Financial projections including cash flow statements for the term of a loan or investment. In some cases, proof of appropriate collateral or the rights to assignment of acquired collateral.
- When utilizing intermediaries such as community development financial institutions (CDFIs) or credit unions, a status report on their current financial position, loan portfolio and leadership succession plan should be collected.

Scorecard

The Foundation will use a scorecard to evaluate prospective investments. The scorecard will enable the staff and Committee to perform an internal investment opportunity screening and assessment whereby they will ensure that the opportunity:

- Meets the criteria of an investment,
- Is mission aligned,
- Provides clear need and use for the Foundation's capital,
- Has demonstrated leadership capacity and stability, and
- Has measurable impact.

The scorecard dimensions of success may be amended as the Foundation gains more experience with its Program.

Due Diligence

Depending on the investment, the Committee may recommend securing and considering additional evaluation in the form of a due diligence report. Such underwriting of an investment can be accomplished internally or through partnerships with third-party partners or consultants. Underwriting costs may be charged to the investee or charged to a relevant Foundation fund. The most common ways that the Foundation is likely to conduct due diligence include:

- Due diligence report prepared by the staff and Committee. The Foundation may opt to conduct its own due diligence if the investee is a long-term and trusted partner and there is clear line of sight to the method of repayment. An example may be a bridge loan to nonprofit grantee who is waiting for committed state or federal reimbursement dollars.

- Due diligence report purchased or commissioned by the Foundation to be performed by a capable third-party partner. The Foundation may wish to contract with a due diligence provider with an impact approach and experience evaluating more than just the creditworthiness of a potential investment.

- Due diligence report or credit memo created by a co-investment partner (e.g., CDFI, bank, or other financial institution/partner) that is shared to facilitate a prospective investment participation. A participation loan is when a financial institution aggregates multiple sources of capital into one large deal. The lead bank or credit union typically originates the loan, takes responsibility for the loan servicing, organizes and manages the participation, and deals directly with the borrower. In such cases, due diligence is shared with prospective participants.

Where risk cannot be fully mitigated, it will be balanced against financial return and community impact. Underwriting and due diligence will be fully documented and retained by the Foundation. The Foundation will have professional advisors review all investment documents, transactions, agreements and legal structures.

D. Monitoring and Evaluation

The Foundation staff will maintain detailed financial records on all investments and will produce financial status reports for the Committee and Board, as applicable.

The Committee, with support from staff, due diligence partners, and professional advisors, will recommend investment terms to be approved by the Board and agreed upon through the closing process. These terms will provide some of the criteria by which staff will monitor and evaluate the health of individual impact investments.

In addition, staff will identify and recommend for Committee approval appropriate impact measures for each investment within the Program. These measures will vary depending on the nature and scope of each individual investment instrument.

Staff will review the financial health of individual local impact investments annually. This review includes, but is not limited to, activities such as ensuring loan or investment compliance requirements are met, checking on whether the investee is current on payments, assuring there are no known violations of covenants, confirming there are no red flags related to staffing of the investee, assessing alignment with Foundation’s commitment to racial equity, and comparing financial returns to the initial financial projections.

In the case of delinquent payments of more than 60 days or prospective investment losses, staff will promptly notify the Committee of any potential impairment and recommend appropriate responses. Any changes in loan terms or conditions must be reviewed and approved by the Board.

IV. Guideline Revisions

These Guidelines and associated processes and procedures will be reviewed and evaluated annually by the Committee. Staff will forward recommended revisions to the Board. Copies of these Guidelines will be made available to all Board members.

Impact Investment Program

Asset Class Scorecard

I. Initial Considerations

This list of initial considerations will be used by staff to decide whether a prospective investment warrants further consideration and conversation. If any question receives a "No" answer, staff will discuss the opportunity with the Impact Investment Committee before proceeding with additional investee conversation(s).

Criteria	Yes	No
Is this an investment?		
Does the investee have meaningful equity in the investment?		
Is there a complete and reasonable business plan?		
Is there a clear source of repayment?		
Is the investment mission-aligned?		
The investment is consistent with the Foundation's mission and strategies and is likely to create lasting impact.		
The investment primarily serves residents in Routt and/or Moffat counties.		
Is the investment unlikely to erode or undermine trust in the foundation?		

II. Scorecard

Once an opportunity passes “initial considerations”, staff and committee will score the investment by completing the following table.

Dimension	Preferred (2)	Permissible (1)	Ineligible (X)	Pts
Catalytic	Investment impact is unlikely to occur without the Foundation’s investment.	Investment may occur without the Foundation’s investment.		
Impact	Investment improves the quality of life, creates or preserves affordable or workforce housing, creates or preserves other community assets, creates local employment, or roots workforce skills in the community.	Investment serves some other mission-aligned purpose.	Investment displaces residents, primarily serves non-residents, and/or significantly competes with existing businesses.	
Geography	Investment benefit primarily accrues to communities in the region.		Investment primarily serves geographies outside Routt and Moffat counties.	
Measure	Investee proposes a simple process for collecting and reporting impact	Foundation develops a simple process for collecting and reporting impact	Investment impact cannot be measured	
Community Alignment and Support	Investment has demonstrated community support through alignment with participatory planning process or investee-led community engagement	Investment may generate some community opposition but board and staff determine there is a community purpose for publicly supporting the project despite the risk	Investment is likely to generate significant community opposition and minimal public messaging value comes from supporting the effort	
Financial Return	Return greater than 4%	Return between 1 and 4%	Return less than 1%	
Security	Secured debt	Unsecured		

Dimension	**Preferred (2)**	**Permissible (1)**	**Ineligible (X)**	**Pts**
Intermediary	Investment pools the Foundation's capital with other investors across multiple transactions.	Investment is direct.		
Institutional Rootedness	Investee is experienced, mission-aligned and has a positive track record in the community	Investee is experienced and will start offering services in the community OR the investee is new organization located in the community	Investee has a negative reputation in the community.	
Leadership	Investee has capable leadership, stability, and resourcing to deliver the proposed work.	Investee is a new organization located in the community.	Investee has unstable leadership and is unlikely to deliver on the proposed work.	
Capital Partnership	Investment leverages and complements other local investors and banks	Investment serves a gap not addressed by other local financing tools	Investment replaces other local investors or banks	
Complexity	Investment is simple.		Investment is overly complex.	
Scale	Impact is significant and widely felt (more than 100 families)	Impact is narrowly felt (fewer than 100 families)	Impact is insignificant	
Timeframe	Shovel ready	Ready in the next two years	Investment is unlikely to proceed in the next two years	
Term	1-4 years	4-9 years	10 years or more	
Transaction Costs and Due Diligence	Investment is affordable to underwrite (<$5,000), can be underwritten by volunteers, or the investee can absorb transaction costs.	Investment is costly to underwrite (>$5,000) or the investee cannot absorb transaction costs, but sufficient funding exists within the investment pool to cover the costs.	Investment cannot be underwritten or the cost cannot be offset.	
Servicing	Investment will require minimal staff time to service		Investment will require significant staff time to service	

Dimension	Preferred (2)	Permissible (1)	Ineligible (X)	Pts
Local Ownership and Control	Locally controlled asset	Assets are not locally controlled	Existing local asset would lose local control	
Type	Loans and unfunded guarantees	Equity or revenue-based financing	Grants	
Concentration			Greater than 1% of assets committed to one investee.	

III. Conflicts of Interest

List any entities with personal or financial interests in the transaction. Evaluate the foundation's conflict of interest policy to determine if a conflict of interest exists and how to address it.

Interested Parties
