



MI3 - A Minnesota Impact Investment Initiative

As of June 2017

MI3 DEFINED

MI3 is a collaboration among a group of Minnesota-based foundations, large and small, led by Minnesota Council on Foundations. Participants set out to catalyze the growth of impact investing in Minnesota through a coordinated investment to build capacity and scale.

COLLABORATIVE PROCESS

With Minnesota Council on Foundations' funding and support, Executive in Residence, Susan Hammel, CFA, and her firm, Cogent Consulting, completed the field-building work to explore interest and gain support for an impact investment strategy targeting communities in need in Minnesota.

INVESTMENT SELECTION

RBC Global Asset Management's Access Capital Strategy is a specialty fixed income strategy that allows investors to impact Minnesota. It invests in high quality securities whose underlying assets include loans to finance low-income housing and small businesses in underserved areas. The Access Capital Strategy, with \$1 billion in assets, is managed by the RBC Global Asset Management's U.S. Fixed Income team, and has a track record of delivering both financial and social return. The team manages a total of \$26 billion and is strengthened by the infrastructure and stability of the firm's parent, Royal Bank of Canada.

IMPACT MEASUREMENT AND REPORTING

MI3 can track the magnitude of the impact of this collaborative effort. All MI3 investors will receive impact measurement reporting on their investments, a roll-up report on MI3 participants' collective investments, and the national reporting for the Access Capital Strategy as a whole, giving insight into the magnitude of the total impact.



Disclaimer: Cogent Consulting Inc. ("Cogent") took all typical prudence and care in producing the analysis using materials provided by the investment managers and public records. Cogent conducted this review as part of serving as Executive in Residence with the Minnesota Council on Foundations, a new program MCF supported by the Bush Foundation. Cogent and RBC Global Asset Management (U.S.) Inc. work together to publish original research.

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Minnesota Impact Investment Initiative

Minnesota Council on Foundations Executive in Residence Program / Feb 10, 2017

Initiative

The **Minnesota Impact Investment Initiative (MI3)** enables foundations of all sizes to pursue targeted investments in affordable housing, small business lending, and socially beneficial municipal debt in Minnesota through an institutional mutual fund investing publicly-traded securities, providing daily liquidity and a market rate return.

Structure

The investment manager chosen to manage the Minnesota Impact Investing Initiative (“MI3”) is RBC Access Capital (“Access Capital”). Since its inception, Access Capital has invested solely in targeted, thematic impact investments. MI3 will exist within Access Capital’s existing mutual fund, the Access Capital Community Investment Fund (“the Fund”). Access Capital will invest participant’s capital in market rate securities that match that participant’s desired impact theme and geography.

Access Capital’s documentation package includes the Fund Fact Sheet and Prospectus, thematic and geographic targeting criteria addendum, and optional RBC Wealth Management account setup documentation.

Access Capital will provide to all MI3 participants:

- The ability to target investments by impact theme (affordable housing, small business lending, and municipal projects) and geography (region, state, multi-county, county, Metropolitan Statistical Area) for investments of \$100,000 or more (outside of MI3, the targeting minimum is \$1 million).
- Access to the **institutional share class**, regardless of investment amount per participant (outside of MI3, the investment minimum is \$1 million). Participants receive the investment performance of the Fund, not just the specific thematic investments designated by the participant or MI3. Participants also receive the daily pricing and liquidity that all investors invested in that share class (ticker: ACCSX) receive.
- Three levels of quarterly impact reports:
 - **Participant Level:** investments that meet their thematic and geographic targets
 - **MI3 Level:** an aggregate of the investments of all MI3 participants’ thematic and geographic targets within the state of Minnesota
 - **Fund Level:** an aggregate of all the investments made by the Fund nationally

Implementation

Access Capital is offering two options for implementation of MI3:

- Purchase the Fund through participants' custodian at the stated management fee of 0.63% annually
- Establish a custodial account with RBC Wealth Management's custody service and purchase the Fund at a net-to-participant fee of 0.50%, lowered through internal revenue sharing arrangements created especially for MI3

How to Participate

If you are interested in this new collaborative, contact Susan Hammel, Executive in Residence with the Minnesota Council on Foundations. If you are ready to invest and have specific fund questions about MI3, contact Janet Quarberg at Access Capital and Mike Dickson at RBC Wealth Management.

Disclaimer Cogent Consulting Inc. ("Cogent") took all typical prudence and care in producing the analysis using materials provided by the investment managers and public records. There are no conflicts of interest for Cogent as it is neither an investor in these funds nor does it stand to benefit by investment by others in these funds or in a new vehicle. Cogent conducted this review as part of serving as Executive in Residence with the Minnesota Council on Foundations, a new program MCF supported by the Bush Foundation.

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This document provides summary information regarding the fund. It is for internal use and reference purposes only, and not approved for distribution. The contents of this review are confidential, and we request that no part of this document be distributed beyond the participants.



News Release

For Immediate Release

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MINNESOTA PHILANTHROPY LEADS WITH \$17.1 MILLION INVESTMENT FOR SOCIAL GOOD AND FINANCIAL RETURNS

MINNEAPOLIS (April 18, 2017)—The Minnesota Council on Foundations (MCF) and several Minnesota foundations today announced a first-of-its-kind in the nation impact investing collaborative. Continuing a legacy of philanthropic leadership that exceeds their always-generous charitable grantmaking, Minnesota foundations are aligning even more of their assets with mission.

Already, there is more than \$17.1 million committed to the impact investing collaborative, and the commitment is expected to exceed \$20 million. It is invested in a fixed income bond fund focused on affordable housing and small business lending throughout Minnesota.

MCF members—The McKnight Foundation, Bush Foundation and the Otto Bremer Trust—are the lead anchor institutions participating in the impact investing collaborative, and there are at least eight other first-mover foundations currently bringing the opportunity through their internal review processes. These include the Initiative Foundation, PFund Foundation, The Minneapolis Foundation, Mortenson Family Foundation, Schnieders Family Foundation, Sundance Family Foundation and other community foundations, small family foundations and rural-based foundations. MCF has also invested a portion of its investment assets in the fund.

Through a competitive process, MCF chose RBC Global Asset Management's (RBC GAM) Access Capital Community Investment Fund.

"This money strengthens Minnesota's market for affordable housing and small business securities and grows the number of Minnesota-based foundations involved in impact investing, says Susan Hammel, CFA, and impact investing executive in residence at MCF. "The fund will have impact locally, but because it reaps nationally diversified returns, it will not have overly localized risk."

The Winona Arms Assisted Living Facility in Winona, Minnesota, is an example of a typical RBC Access Capital investment. Winona Arms is covered under the Section 202 Program, which helps expand the supply of affordable housing with supportive services for the elderly. It provides very low-income elderly with options that allow them to live independently but in an environment that provides support activities such as cleaning, cooking and transportation.

Aligning the "other 95%" with mission

U.S. tax law requires that foundations pay out at least 5 percent of the annual value of their investment assets for charitable purposes. Traditionally, the other 95 percent of a foundation's assets are invested to grow its endowment for future grantmaking. Impact investments allow foundations to align some of that other 95 percent to generate both financial and mission-aligned social returns.

"In the not-too-distant future, I believe foundations activating 100 percent of assets for mission will become the rule rather than the exception," says Trista Harris, MCF president and philanthropic futurist.

continued

Minnesota Philanthropy Leads with \$17.1 Million Investment for Social Good and Financial Returns

The Access Capital Community Investment Fund has developed a track record of working with governments and institutional investors to invest in customized U.S. agency guaranteed mortgage-backed securities and government-backed loans and municipal securities that support affordable rental housing, small businesses, healthcare, education and job creation targeted to low- and moderate-income residents and communities. As of December 31, 2016, the Access Capital Community Investment Strategy has more than US \$1 billion in assets under management. Investment performance for Treasury's the Access Capital Community Investment Fund is measured against the Barclays Securitized Index.

"We applaud the efforts and active leadership of the Minnesota Council on Foundations to direct capital locally," says Catherine Banat, institutional portfolio manager for RBC Global Asset Management. "Minnesota is the home office of our team, and as such we are excited to have the opportunity to design a portfolio that supports impact-related investments across the state while also earning a competitive financial return for our investors."

More about the impact investing collaborative can be found here: www.mcf.org/impact-investing

About the Minnesota Council on Foundations

The Minnesota Council on Foundations (MCF) is a vibrant philanthropic community working collectively to advance prosperity and equity. MCF members represent three-quarters of all grantmaking in the state, awarding more than \$1 billion annually. For more information, visit www.mcf.org.



Global Asset Management

Access Capital Community Investment Strategy

SOCIAL IMPACT



us.rbcgam.com

Access Capital Community Investment Strategy

Social Impact

Disciplined Fixed Income Investing With A Community Development Purpose

- Through impact investing, investors can pursue competitive investment returns while achieving measurable social impacts.
- One approach is to add an impact dimension to the kinds of US fixed income securities that investors already own.
- These customized securities can achieve lower expected volatility, more stable cash flow characteristics and the return required for a compelling double bottom line outcome and investment dollars can be targeted to a particular geography.
- Socially responsible investment that helps build stronger communities through its support of low- and moderate-income home buyers, affordable rental housing units, small business administration loans and economic development projects.
- Meets Community Reinvestment Act (CRA) requirements.
- Investors can geographically target their investments by state, city or county.¹

Access Capital Investment Philosophy

Access Capital believes that we can help build stronger communities through fixed income investments that offer safety, liquidity and competitive returns. We tailor portfolios of high quality securities to investors' needs while aiming to:

- Achieve a market rate of return
- Increase the flow of capital to target communities

The Access Capital strategy was founded on the premise that investing in government-backed securities targeted to low- and moderate-income communities presented both economic advantages to investors and social benefits to underserved communities. We believe that this strategy can deliver the *double bottom line* outcomes of higher than average risk-adjusted returns while providing capital that facilitates economic development in underserved areas.

Impact Investing Defined

Impact investing is the process by which funds are allocated not only to earn a financial return but also to advance social goals. Impact investing encompasses a vast range of investments, from alternative energy projects to micro-finance and from affordable housing to growing healthy and natural foods.

Access Capital - A Leader in Impact Investing

- **A Unique Investment**
 - This impact investment offers the ability to invest in targeted underserved communities across the US¹
 - All investments screened for impact
- **Geographically-Targeted**
 - Investors can direct capital to their own backyard¹
- **Competitive Returns**
 - Competitive risk-adjusted returns benchmarked to the Barclays Securitized Index
- **High Credit Quality Portfolio**
 - Seeks to manage credit risk by holding instruments that are primarily guaranteed by the US government or its agencies or by high credit-rated municipalities
- **Daily Liquidity**
- **Long-Term Track Record**
 - Strategy launched in 1998

¹Qualified investors, subject to minimum investment

Making a Difference in **Rental Housing**

Having an Impact on **Healthcare**



Gibson Plaza Apartments Washington D.C.

- Originally built in 1971, stands 10-stories tall in an urban neighborhood just north of the National Mall
- Utilizing green building technologies, project included exterior renovation, the addition of a service elevator, the conversion of multiple units to handicap accessible units, and an expanded community room and laundry facility
- New casework, finishes, fire annunciation and suppression systems, onsite parking, and comprehensive mechanical and electrical renovations to increase environmental and operating efficiencies
- 217 units, some subsidized and others market-rate ranging from efficiency to 3-bedroom units

Holyoke Health Center² Holyoke, Massachusetts

- Community Health Center established in 1970 and located in a federally designated Medically Underserved Area and Health Professional Shortage Area
- Holyoke serves 24,000 patients per year
- Holyoke, MA, has the highest state rate of mortality, teen births, AIDS/HIV-related deaths, alcohol and drug related deaths, and deaths from homicide and suicide
- Through the use of New Markets Tax Credits, Massachusetts Housing Investment Corporation (MHIC) and the Fund, provided the Center with multiple layers of financing to expand their healthcare and services while giving them a more efficient capital structure

²Loan was paid off in 2015 and is not a current investment

Making a Difference in **Education**



Metropolitan State College Denver, Colorado

- As part of the Auraria Higher Education Center (AHEC) in downtown Denver, facilities have not been growing at nearly the same rate of enrollments (15% building growth vs. 250% enrollment growth)³
- AHEC aims to create an institutional identity that assists recruitment and retention of students, faculty, and staff with the goal of increasing the success and retention of all students enrolled at the school, as well as doubling Latino enrollment to become a Hispanic-serving institution
- Bond proceeds are being used to develop and grow the Metropolitan State College campus

Having an Impact on **Infrastructure and Job Creation**



Arkansas Development Finance Authority Little Rock, Arkansas

- The Arkansas Development Finance Authority (ADFA) has been sourcing economic development, homeownership, and affordable rental housing since 1985
- Bond proceeds support economic development for three businesses in the state of Arkansas
- ArLam, LLC manufactures wood products; bond proceeds will acquire and restart a production facility in Magnolia, Arkansas
- Sage V Foods, LLC processes rice and rice food products in Stuttgart, Arkansas; bond proceeds will expand processing and warehouse facilities
- Pre-Insulated Metal Technologies, Inc. manufactures metal panels for use in construction projects; bond proceeds will purchase equipment in their Little Rock, Arkansas facility

³As of 2009

Making a Difference for **Small Businesses**



Haven HealthCare⁴ Salt Lake City, Utah

- Haven HealthCare was founded in 2001 as Haven home Health by nurses committed to providing quality patient care to Salt Lake families
- Haven's home care services provide skilled nursing and rehabilitative therapy to help patients recover from illness, injury, and surgery in the comfort of their homes
- Hospice care helps families through end-of-life needs, including non-medical personal care and transportation services
- The strategy's SBA financing investment of \$233,625 created and sustained 70 jobs

Sudbury Family and Cosmetic Dentistry⁴ Sudbury, Massachusetts

- Kim M. Chau, DMD has been practicing dentistry in the Sudbury, MA area since 1996 and opened her own practice in 2004
- The practice offers a variety of cosmetic restorative procedures in addition to preventative dentistry services
- The SBA financing investment of \$172,277 helped grow and develop Dr. Chau's private practice, creating and sustaining five jobs

⁴Loans were paid off in 2012 and are not current investments.

Having an Impact on **Home Ownership**



The Delaware State Housing Authority Dover, Delaware

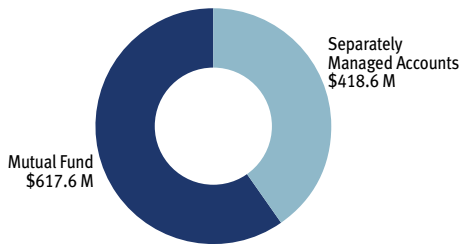
- The Delaware State Housing Authority (DSHA) has been efficiently providing quality, affordable housing opportunities and supportive services to low- and moderate-income Delawareans since 1968
- Serves as a Public Housing Authority and acts as a Community Development and Planning Agency
- Makes loan for single family owner-occupied homes and first-time home buyers with below average median family income

RBC GAM Impact Clients

- Approximately 70% of our clients have been investing in the RBC GAM Impact Strategy for more than 5 years
- Approximately 30% of RBC GAM Impact clients have made add-on investments
- Approximately 30% reinvest dividends on an ongoing basis
- 132 institutional clients

RBC GAM Impact Strategy

\$1.0 Billion AUM



As of 3.31.17

Cumulative Community Impact

RBC GAM has participated in impact investments in 48 states and the District of Columbia since inception⁵ through March 31, 2017:

15,945 Low- to Moderate-Income Home Buyers

71,859 Affordable Rental Units

5,896 Nursing Home Facility Beds

27 Rural Housing

101 Rural Enterprise

486 SBA Loans

117 Community Economic Development

16 Community-Based Not-For-Profit Organizations

⁵Inception: July 1, 1998

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