Approved February 13, 2014 – Board of Directors

Northwest Area Foundation

Mission Investing Strategy Recommendation

to Board of Directors

February 2014

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Northwest Area Foundation

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Executive Summary

Since 2004, the Northwest Area Foundation (NWAF) has engaged in mission investing, using both market-rate mission-related investments (MRIs) and below-market-rate program-related investments (PRIs) to advance its mission to reduce poverty and achieve sustainable prosperity. Over the next 4-5 years, the Foundation implemented its mission investing strategy, making $10 million in MRI commitments and approximately $10.8 million in PRIs overall.

In 2012, as part of its strategic refinement work, the Board of the Foundation created an ad hoc committee, the Mission Investing Committee (MIC), to lead NWAF's efforts to freshen its approach to mission investing. This committee was tasked with determining whether to continue to engage in mission investing in the future and, if so, in what format, at what dollar level, and with which investment and social return objectives in mind.

After approximately a year of education, due diligence, and reflection, the committee recommends that NWAF adopt the mission investing strategy that is fully documented within this strategy paper and summarized below in the following four key points:

1. *Total Commitment:* $40 million of the Foundation's investment portfolio is recommended to be made available for mission investing, an amount which represents approximately 10 percent of the portfolio currently. Of the $40 million total, $30 million would be directed to MRIs and managed within the investment portfolio. The remaining $10 million would be carved out of the current investment portfolio for distribution as PRIs. Full implementation of both of these strategies is expected to take several years.

2. *Mission-Related Investments:* $30 million (of the $40 million) will be reserved for MRIs and directed to investments that are aligned with the Foundation's mission and that have expected market-rate returns for the particular asset class. MRIs will be deployed using investment managers experienced in this field that can also bring diversification of risk and co-investment by other like, mission-based organizations to their MRI efforts. While the expectation is that mission investments will try to align as directly as possible with the broader mission of the Foundation and its strategies, the nature of MRIs may require flexibility in investing in regions beyond NWAF's eight states.

   Governance of Mission-Related Investments: The investment staff will manage the MRI portfolio and the Investment Committee (IC) will have governance responsibilities for it. MRIs will adhere to the asset allocation, return requirements, and risk constraints established by the IC for the Foundation's assets and will be deployed slowly and intentionally, possibly taking five years or more to fully commit the entire $30 million.

3. *Program-Related Investments:* $10 million (of the $40 million) will be carved-out of the current investment portfolio to be used for distributing these below-market-rate program-related investments. This PRI carve-out would be in addition to the existing approximately $6 million of outstanding PRIs, creating a total PRI portfolio of $16 million. This PRI portfolio is intended to be recycled indefinitely, essentially creating a revolving pool of assets to be continually redeployed. Though the creation of the PRI pool would decrease cumulative grant dollars (because of the slightly lower investment portfolio size) distributed over a twenty year period by approximately $11 million, an estimated $43.3 million would be deployed as PRIs over that same

period of time. As PRI dollars are distributed, those distributions would be above and beyond the 5 percent qualifying distribution requirement that is targeted to be paid out annually to meet IRS requirements and would not be recaptured as excess distributions.

Governance of Program-Related Investments: The PRI portfolio will be governed by the Program Committee and managed by a cross-functional team of program and finance staff as well as the President and CEO. Investments with a below-market return (for the particular type of investment) will be considered PRIs. NWAF will employ intermediaries such as community development financial institutions (CDFIs) to deploy PRI funds in order to source opportunities, leverage the expertise of those organizations, and diversify risk. Investments which align with the Foundation's strategies and eight-state region will be prioritized. Additionally, at least 40% of PRIs will be targeted to investments based in or directly benefiting Indian Country.

4. *Governance of Mission Investing Strategy:* Upon dissolution of the Mission Investing ad hoc committee at the completion of this work, the Executive Committee of the Board will assume responsibility for the overall mission investing strategy. The committee will conduct biennial reviews (or more often if needed) of both the MRI and PRI portfolios to understand the investments made and the current mission investing environment and opportunities. Lastly, when it deems appropriate, the Executive Committee will review the dollars reserved for the mission investing strategy and make adjustments as needed as it evaluates NWAF's success with this strategy and the economic landscape and environment over time.

Through this strategy, the committee hopes to expand not only the Northwest Area Foundation's knowledge and experience in this area, but to assist the entire field in the development of new strategies designed to advance the work of the philanthropic community.

Introduction

The Northwest Area Foundation (NWAF) first began employing a mission investing strategy in 2004, using both market-rate mission-related investments (MRIs) and below-market-rate program-related investments (PRIs), in addition to its grant dollars, to advance its mission to reduce poverty and achieve sustainable prosperity.

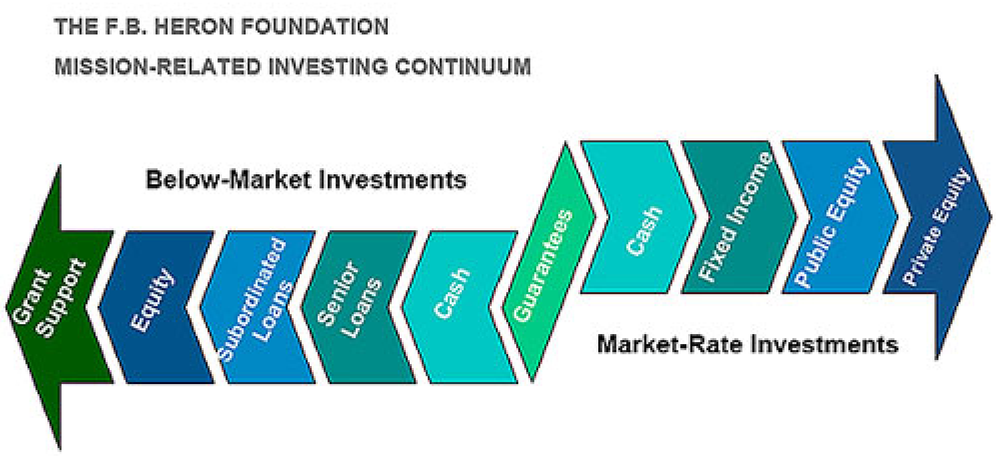
Since those early endeavors, significant developments in the field of mission investing include: organizations supporting mission investing have grown and developed; more foundations have established programs; and investment managers have added new strategies and vehicles. An *ad hoc* committee of the Board, the Mission Investing Committee (MIC), was formed in 2012 to evaluate the possible extension of the strategy and to consider if, how, and when to implement it. The findings, observations, and recommendations of the MIC are detailed below.

Background

Private foundations make expenditures, known as qualifying distributions, intended to advance their missions. The federal tax code requires that each year, these qualifying distributions meet a minimum requirement roughly equivalent to 5 percent of a foundation's assets. Traditionally, foundations have chosen to manage their investment assets to maximize financial return within their established risk parameters with the intention of making the 5 percent distribution as large as possible. A growing number of foundations are questioning that model. Specifically, they are seeking ways to invest that provide both a mission impact and a financial return.

The spectrum of investment opportunities illustrated below ranges from basic grant support to private equity investments. In between are many varied opportunities. Such investments are often discussed in two broad categories. Program-related investments (PRIs) have a primary purpose of advancing the mission and as such seek significant social return while accepting a below-market return. Mission-related investments (MRIs) seek a market-rate return while providing social benefit that advances the mission. The Northwest Area Foundation uses the term *mission investing* to refer to all investments with social as well as financial return expectations, including both PRIs and MRIs.

Illustration I



The MIC was tasked with recommending to the Board first whether or not to engage in a new mission investing strategy. Second, the MIC was charged with identifying and recommending the optimal scale, potential types of vehicles, and defining the social and financial return objectives. To ensure an adequate context for these recommendations, the MIC evaluated the Foundation's experience in making PRIs and MRIs, as well as the evolution of investment opportunities and implementation models of peers. Regarding that evolution, the committee reviewed relevant literature, met with peers working on comparable investment strategies, attended conferences, and shared personal experiences related to mission investing and impact opportunities. This knowledge and experience then guided the MIC in making its recommendations to the Board on the strategic role of mission investing and a plan of implementation for the Foundation.

History and Learning

The Foundation made an initial mission-related investment in 2004, with a $10 million commitment to Invest Northwest, a private growth-equity vehicle. The investment was established by the Foundation with the dual objectives of realizing "significant social returns and a 15 percent annual internal rate of return (IRR)." Conducted by Pacific Community Ventures, the 2012 annual review of the investment's impact counted more than 200 jobs added by current portfolio companies in the region during a period when jobs nationally were declining. The portfolio companies also provided benefits and training opportunities at levels surpassing national averages with higher benefits eligibility and enrollment rates, while paying higher median wages than comparable businesses.[1] The return to date of 1.65 percent[2] is well below the targeted 15 percent internal rate of return, but was significantly impacted by the financial crisis through both stress on individual portfolio companies and an extension of the holding period.

The Invest Northwest program provided an important learning opportunity for staff and the Foundation. The Foundation provided the anchor commitment and expected that the initial $10 million would attract other capital. Only an additional $5 million was committed; this limited the number of investments that could be made and reduced the diversification. The smaller size of the pool also meant that more debt rather than equity investments were made which limited the potential return. Among the other key lessons were the need for (1) ensuring thoughtful due diligence to establish reasonable return expectations, (2) partnering with experienced managers with operating expertise, and (3) recognizing the high cost of creating and managing a custom investment vehicle.

After establishing that no more than 3 percent of the Foundation's assets would be committed, the Foundation created a PRI portfolio totaling $10.8 million between 2003 and 2008. The portfolio's weighted average yield, which represents only the interest charged on the PRIs, is 0.89 percent with individual investments structured to charge interest rates in the range from zero to 2 percent. Social returns included conversion of mobile home parks to cooperative ownership, loans to green business opportunities in rural areas, and increased access to capital for micro-businesses in rural and urban areas.

These PRIs funded a variety of strategies, which provided valuable staff experience. For example, early PRIs were made to community development financial institutions (CDFIs) that provided the Foundation with 501(c)(3) nonprofit vehicles that could relend funds locally. A criterion established for PRIs was that the CDFIs have at least five years of lending experience. The Foundation's securing seasoned business lenders as partners was critical. Even as they experienced increased delinquencies, they had sufficient loan loss reserves to prevent distress at the organizational level. CDFIs also provided on-the-ground knowledge of lending opportunities and deep underwriting expertise.

These early PRI experiences offered several important lessons. Equity investments proved complicated in both their deployment and management. The PRI portfolio experienced losses from investments in a rural venture capital fund and a rural angel investor network. Micro-equity placement was a challenge as low-

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[1] Pacific Community Ventures, "Invest Northwest: Assessing Social Impact" July 2013
[2] Jeffrey Slocum & Associates, Performance Report September, 2013

income business owners often did not have the equity necessary to successfully borrow funds to launch their venture, yet they were reluctant to give up any portion of their business to an outside investor. Although there may be opportunities to invest in equity in the future, investments should be structured with an exit opportunity that does not rely on the business being sold to a third party. A separate PRI was identified by staff as high risk at inception, but was made to an organization with an existing grant from the Foundation that required additional capital. Staff experienced added benefits through the use of intermediaries who can bring together diverse groups to share knowledge, facilitate peer learning and generate opportunities for co-investing. That interaction facilitates the creation of a network of trusted partners with which to collaborate.

To help shape the Foundation's planning process, members of the MIC met with three peer organizations to learn from their successes and failures in mission investing. Meyer Memorial Trust has been working in the field for more than ten years. The Trust emphasized that it did not achieve the current 8 percent allocation overnight; it took years to build the needed experience and knowledge as well as to develop partnerships with consultants and other funders. F.B. Heron targets 100 percent of its capital to be invested in a manner that is aligned with the mission. In order to reach its objective, Heron has created customized equity indices and investment vehicles through which it invests. The effort was undertaken in 2007 and the realignment of the portfolio is ongoing. Finally, the Surdna Foundation, like many other organizations, uses PRIs exclusively for mission advancement. Surdna had some previous experience with mission-related investments that did not yield the desired results.

Objectives

It is the intent of the Foundation that mission investments should be as closely aligned as possible with both the mission of the Foundation and specific program goals. Investments that can advance specific program priorities usually have the most desirable impact.

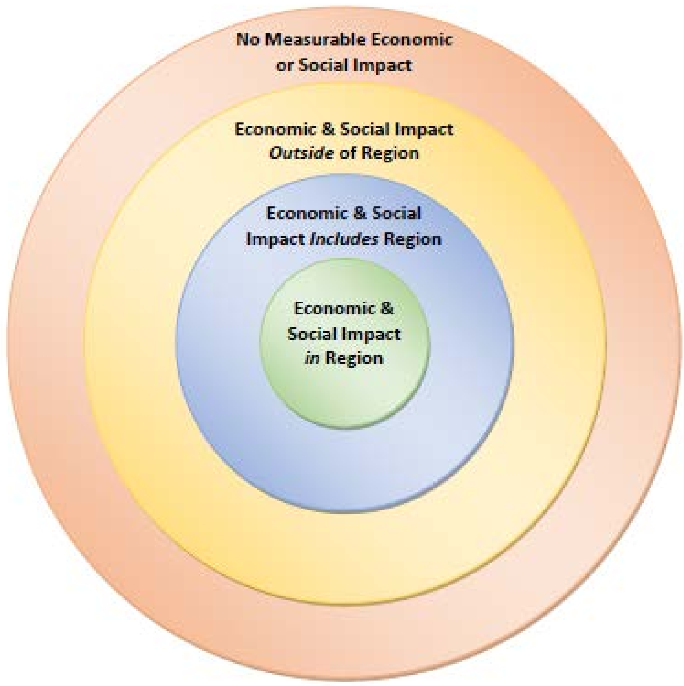
General social objectives of the Foundation include the two outcomes from the Strategic Plan Refinement:

1. Good jobs – This outcome would be advanced by investments that increase the number of good jobs in the region. The Foundation defines good jobs as those that create a pathway to living wages, benefits, advancement opportunities, and directly benefit low-income individuals.

2. Financial capability – This outcome would be advanced by investments that provide access to capital, and other tools of financial capability and economic opportunity, to low-income people and low-wealth communities. The Foundation defines financial capability as the ability of low-income people to earn and retain income to fully participate in social and economic opportunities.

The Foundation will give preference to investments with economic and social impact that are within the 8-state region, as depicted below in Illustrations II's green circle. However, it is unlikely that mission-related investments will match the Foundation's eight state region. While the Foundation will seek out mission-related investments that include all or a portion of the region, investments outside of the region will also be considered. Shown as blue and yellow in Illustration II, these investments will be viewed as especially desirable if they provide an opportunity to partner with other organizations or if successful investment strategies could serve as a pilot with the potential to be replicated within the region.

Illustration II
Mission Investing Framework



While the expectation is that mission investments will try to align as directly as possible with the broader mission of the Foundation, the committee understands that partnering with other mission-based organizations will require flexibility to allow all participants to achieve their desired programmatic or impact goals. The committee expects that PRIs are more likely to be invested in the inner ring of the illustration while MRIs are more likely to be in the second or third rings. This mission investment framework is intended to be open to the many investment ideas and opportunities that the committee both generated itself and heard from others through its research. Whether a PRI or MRI, all investment ideas will be considered. The Foundation will use Illustration II's alignment screening as a starting point to guide its further exploration and due diligence.

Guiding Assumptions
Based on its learning and objectives, the committee created a set of guiding assumptions for the Foundation's mission investing strategy. Those assumptions are as follows:

1. **Mission investing strategies should be straightforward to implement and manage.** These strategies will be implemented by existing staff. And the capacity of current staff to take on and implement additional initiatives may constrain mission investing. As a result, the committee anticipates that the Foundation will invest primarily through intermediaries rather than making direct investments, which consume more time and resources. With respect to MRIs, intermediaries are investment managers or commingled funds. And for PRIs, intermediaries are CDFIs, which include community development banks, credit unions, loan funds, venture capital funds and microenterprise loan funds. In order to more effectively leverage its assets and minimize costs, whenever possible, the Foundation will utilize existing investment vehicles rather than build customized structures.

2. **All potential financial and social returns should be considered.** The review and analysis of potential mission investment opportunities will include all aspects of both the potential financial and social returns. The intent of mission investments is to produce a measurable social impact in conjunction with achieving a reasonable financial return; however, social impact can be difficult to measure and quantify. This difficulty should not reduce the weight that these impacts carry in the investment decision.
3. **The Foundation should partner with others in investment strategies and vehicles.** The Foundation will seek opportunities to invest alongside like-minded organizations. These partnerships will build relationships, allow for knowledge sharing, and leverage investment dollars providing benefits in addition to the impact and financial returns.
4. **Strategies should align with our mission and, if possible, our core strategy of asset and wealth creation.** The Foundation will seek to make mission investments that are aligned with its strategic refinement's areas of focus. Due to asset allocation and risk constraints on the investment portfolio, it may be more difficult to align MRIs than PRIs with our core strategies.
5. **Realistic risk and return expectations for each mission investment should be established at inception.** The committee recognizes the inherent risk involved in any investment. Although staff is expected to conduct thorough analysis and due diligence, the nature of working in emerging areas necessarily entails risk. Shifting market environments may have a significant impact on an investment. Lastly, no guarantees can be made as to either the final rate of return or social impact.

Recommendations

The Mission Investing Committee recommends that $40 million of the Foundation's investment portfolio be made available for mission investing, an amount which currently represents approximately 10 percent of the portfolio. This target level of investment includes *both* market-rate MRIs and below-market-rate PRIs. Staff and the Investment Committee (IC) would be responsible for the identification of mission-related opportunities within the investment portfolio. MRIs will adhere to the asset allocation, return requirements, and risk constraints established by the IC for the Foundation's assets. For example, the Foundation has an established target of 15 percent of the portfolio for investment in fixed income; any MRI's made using fixed income securities would be part of the total 15 percent allocation. It is unlikely that the MRIs would be diversified across all asset classes. Rather, MRI selection would be driven by the investment opportunities identified and constrained by the existing investments in the portfolio and the Foundation's strategic asset allocation. The Foundation should not sacrifice a sustainable financial return, but should add social impact to the evaluation criteria for potential managers and strategies. As an example, if an investment vehicle utilized mezzanine debt to provide growth capital for small companies and the expected return for mezzanine debt strategies is between 12-18 percent, the Foundation would consider a mezzanine debt investment with expected returns between 10-16 percent that also included the creation of quality jobs. The Foundation would still seek to be compensated for the investment risk associated with a mezzanine debt strategy. Yet it would consider a slightly reduced return that is offset by the social alpha or mission impact of creating good jobs.

Furthermore, the MIC recommends the creation of a PRI carve-out of $10 million from the $40 million target, from which below-market-rate return program-related investments would be made. This PRI carve-out would be in addition to the existing approximately $6 million of outstanding PRIs. Hence, the initial total PRI portfolio would be $16 million. The PRI portfolio is intended to be recycled indefinitely, essentially creating a revolving pool of assets to be continually redeployed. PRIs would be sourced, recommended, and approved in the same manner as grants, and would be subject to the same levels of approval authority that exist for grantmaking. The PRI carve-out amount would be *in addition to* the Foundation's spending requirement for qualifying distributions and that amount would be deployed *in addition* to the minimum distribution requirement in the tax code. As the PRI carve-out amount increases spending in the near term, it would incrementally reduce the future size of the Foundation's assets.

In order to assess the financial implications for the Foundation of a PRI carve-out, staff asked Slocum, the Foundation's investment consultant, to analyze the impact of a potential PRI carve-out over the next 20 years. The size of the carve-out determines the overall impact on the Foundation's (1) assets, (2) annual grantmaking, and (3) cumulative PRIs. To provide a baseline, Table I illustrates the Foundation's current assets growing at the 8 percent annual target (with no PRI carve-out) and the resulting 5 percent in annual qualifying distribution over the next 20 years.

Table I
Investment Portfolio Baseline Assumption
(in millions)

NWAF Return = 8% with no PRI Carve-out		
Year	**Annual Qualifying Distributions No PRI Carve-out**	**Total Foundation No PRI Carve-out**
2013	$20.0	$415.0
2014	$20.8	$425.8
2015	$21.3	$436.9
2016	$21.8	$448.2
2017	**$22.4**	**$459.9**
2022	**$25.5**	**$522.8**
2027	**$29.0**	**$594.4**
2032	**$32.9**	**$675.8**

Table II shows the impact of creating a PRI carve-out as part of the targeted 10 percent allocation to mission investing. In this scenario, the Foundation would carve out $10 million from the investment portfolio to dedicate to PRIs, in addition to the existing PRI portfolio of approximately $6 million. The additional $10 million would be invested over the next four years. Thereafter, the total PRI portfolio, initially valued at $16 million, would be completely recycled every seven years.

Additionally, the analysis assumes that the investment portfolio would return the 8 percent target annually while the PRI portfolio would lose 0.5 percent annually based on the Foundation's historical experience. The existing PRI portfolio has generated an approximate 0.2 percent return, based on interest payments from outstanding loans being offset by some PRIs failing to be repaid. The data are summarized in Table II. The additional program-related investments are projected to decline slightly over the 20-year period as the negative returns would erode the value. Assuming this -0.5 percent, the PRI revolving pool would decrease from its initial $16 million value to approximately $14.8 million in 2032. If all PRIs are repaid in full or if the average yield offsets the losses the initial $16 million would be retained over time.

Table II
$10 million PRI Carve-out
(in millions)

NWAF Return = 8%, PRI Return = -.5%, $10m carve-out for program-related investments over 4 years									
Year	Program-Related Investments	Cumulative Program-Related Investments	Annual Qualifying Distributions w/PRI Carve-out	Annual Qualifying Distributions No PRI Carve-out	Reduction in Qualifying Distribution	Cumulative Reduction in Qualifying Distributions	Total Foundation w/ PRI Carve-out	Total Foundation No PRI Carve-out	Difference in Portfolio Value
2013	$6.0		$0.0	$0.0	$0.0	$0.0	$415.0	$415.0	$0.0
2014	$2.5	$2.5	$20.8	$20.8	$0.0	$0.0	$423.1	$425.8	-$2.7
2015	$2.5	$5.0	$21.2	$21.3	$0.1	$0.1	$431.4	$436.9	-$5.5
2016	$2.5	$7.5	$21.6	$21.8	$0.3	$0.4	$439.9	$448.2	-$8.3
2017	**$2.5**	**$10.0**	**$22.0**	**$22.4**	**$0.4**	**$0.8**	**$448.6**	**$459.9**	**-$11.2**
2022	**$2.3**	**$21.4**	**$24.9**	**$25.5**	**$0.6**	**$3.8**	**$510.1**	**$522.8**	**-$12.8**
2027	**$2.2**	**$32.5**	**$28.3**	**$29.0**	**$0.7**	**$7.1**	**$579.9**	**$594.4**	**-$14.5**
2032	**$2.1**	**$43.3**	**$32.1**	**$32.9**	**$0.8**	**$11.0**	**$659.3**	**$675.8**	**-$16.5**

The likely result of creating a $10 million carve-out from the Foundation's assets held in the investment portfolio would be to diminish the growth in the value of the portfolio over the next 20 years by $16.5 million. As a consequence, by the end of the 20-year period, a total of approximately $11 million in fewer grants would have been made. However, continually re-investing the PRI funds would have allowed $43 million of PRIs to be made over the same period.

Although staff will conduct thorough due diligence prior to making any mission- or program-related investment, there is an inherent level of risk and uncertainty involved. As the Foundation's experience has demonstrated, not all mission-related investments will achieve their target returns and some program-related investments will not be repaid. When a PRI fails to be repaid, it will be converted to a grant in that year. Any lack of repayment will reduce the amount available for deployment as new PRIs from the initial $16 million.

Conversely, if all principal repayments are made, the pool will remain at $16 million. In addition, all net of applicable tax interest payments on PRIs will be considered part of the revolving pool of assets and would add to the value of the pool over time. It is worth noting that PRIs are not required to charge less than 2 percent interest; the requirement is only that the investments have a below-market-rate return. For example, higher returning investments would be acceptable, provided they are still deemed below-market-rate, given the level of risk associated or the prevailing lending rates.

The PRI carve-out would be deployed *in addition* to the minimum distribution requirement (5 percent) in the tax code. Thus, it would not reduce the grant budget in the year in which the funds were deployed for PRIs. **The decision to create a PRI carve-out would require the Board to approve a revision to the Foundation's current spending policy**, which essentially treats the tax code's minimum distribution requirement as the Foundation's spending policy maximum. The revision would be needed to allow for the carve-out of $10 million for the PRI pool and the incremental dollars that will be contributed to the PRI pool from PRI interest payments net of taxes.

Additionally, for the initial PRI outlays, the Board would need to consider an exception to the current agreed-upon practice with regard to recapturing Excess Accumulated Distributions (EADs). As part of creating the PRI pool of capital, the Foundation would not seek to recapture the excess distributions resulting from the new PRIs. Rather, a conscious decision to distribute over the tax code minimum would be required. While EADs relating specifically to the PRI portfolio would not be recaptured, other EADs that occur as a result of normal spending would continue to be recaptured per current practice.

Note on Opportunities in Indian Country

The Foundation seeks to support the creation of good jobs and financial capability in Indian Country. This support may include providing capital, loans, guarantees, and partnering with federal and state agencies. The aim of these efforts is to enhance Indian entrepreneurship, micro- and small business development, and the creation of good jobs. The Mission Investing Committee and Foundation staff anticipate that finding market-rate investment (MRI) vehicles based in Indian Country may be more challenging than identifying PRI opportunities. At least 40% of the PRI carve-out will be investments based in or directly benefiting Indian Country.

Evaluation and Assessment

A section of the balanced scorecard has been reserved for reporting to the Board on mission investing. As impact will be difficult to measure in the early years of implementation, the Mission Investing Committee recommends that initial monitoring be focused on the identification and review of opportunities and both committed and invested capital. As these investments mature and demonstrate their intended outcomes, impact measurements will be added to the reporting.

The impact metrics measured and reported will vary with the strategy selected and the vehicles used. The evaluation must take into consideration the diverse goals of the investments implemented. For example, investments that seek to provide growth capital to businesses will be assessed by:

- Number of living wage jobs they create.
- Location of those jobs.
- Availability of health benefits.
- Opportunities for savings.

Investments made in financial institutions may be categorized as commercial, consumer, or mortgage and assessed by:

- The number of loans made.
- The total dollars loaned.
- The number of people receiving financial services.

For investments that target affordable housing, metrics could include number of units financed, location of the units and a measure of affordability. To conclude, impact metrics will be established based on the investments made and adjusted over time as the portfolio evolves.

Staff will provide a risk assessment of each PRI prior to commitment. These assessments will be adjusted over time and reported both as individual PRIs and for the entire portfolio in order to gauge the risk of the portfolio. Metrics used to judge the risk of a PRI may include collateral levels, loan loss reserves, years of operation of recipient, stable and experienced management, and experience implementing the same or similar strategies.

Social and mission impact is especially difficult to assess and measure. When measurement can be achieved, it is often costly. The Foundation's staff will be responsible for the implementation of evaluation, which may be performed internally or by a third party, whichever is deemed more appropriate. Assessment should be conducted at appropriate intervals that strike a balance between the value of the information and the resources required to obtain it. The Foundation should make every effort to share the information, insights, and knowledge gained from assessment with other organizations to help advance the mission investing field.

Although qualitative impact requires different types of assessment, those impacts are equally as important as quantitative impacts. They both should be included in the overall assessment of the success of the individual investments and the total mission investing portfolio.

Mission Investing Governance

The Foundation's mission investing will be managed on a day-to-day basis by a group consisting of program and finance and administration staff as well as the President and CEO. This group will meet up to four times per year to review potential and existing MRIs and PRIs. The group was intentionally structured to bridge the natural barriers between the program and investment functions in the organization. To help advance the Foundation's mission, this group will promote identifying a wide variety of investment vehicles, including new vehicles created as the mission investing field continues to develop. Specifically, the committee anticipates that both program and investment staff will play an important, generative role in discovering new, prospective vehicles that may serve as both investment and learning opportunities.

This interdisciplinary staffing approach notwithstanding, the MRIs and PRIs will operate under separate governance structures: the Program Committee (PC) will oversee PRIs and the Investment Committee (IC) will oversee MRIs. Staff and the Program Committee will have oversight for deployment of the PRI portfolio, and new PRIs will be made with the same levels of approval authority that exist for grantmaking. With this approach, the PRI monitoring activities will be moved from the Audit Committee to the Program Committee. These activities include staff providing the Program Committee with an annual update on the entire PRI portfolio, including a focus on those PRIs which may be on watch or impaired. The Audit Committee would still be accountable for reviewing the overall financial reports of the Foundation, which include the PRI portfolio.

The Investment Committee will have oversight with regard to all investments held within the Foundation's investment portfolio, including the mission-related investments. The IC expects that the delegations of authority and responsibilities as designated in the Statement of Investment Objectives and Policies (SIOP) will apply to both traditional and mission-related investments. The SIOP designates responsibility to the Investment Committee for asset allocation, defining risk and liquidity parameters, and tactical investment decisions. Generally, the investment staff is responsible for manager and vehicle selection and investment implementation.

As envisioned at its inception, the Mission Investing Committee will be phased out after making its strategy recommendations to the Board. Thereafter, the Executive Committee (EC) of the Board will assume responsibility for the overall mission investing strategy. As a committee which includes all committee chairs under the purview of the Board, the EC represents all significant areas of oversight and is well-positioned to govern this foundation-wide strategic effort, including its implementation and progress.

The EC will conduct a review at least biennially of both MRIs and PRIs, or more often if needed. These reviews will likely occur more frequently after staff has had time to review opportunities and deploy capital. The EC will review not only investments that have been made, but also meet with staff to discuss the mission-related investing environment and opportunities.

Notably, the EC will also be responsible for moving the Foundation to its desired 10% allocation to mission investing over time, depending upon market conditions and whatever other circumstances it may take under consideration. At this time, the MIC is sufficiently confident in recommending the creation of the $40 million mission investing pool, roughly 10% of current assets. The MIC recognizes that the 10 percent target may be difficult to achieve within the return requirements of the Foundation. At regular intervals, the EC will review this 10% allocation and adjust the total mission investing dollar amount, as needed.

In addition, staff expects that investment opportunities will develop in response to the demands of investors. However, there can be no assurances that the market will develop sufficient attractive investments. The committee expects that at a minimum it will take 5-7 years to reach the current $30 million mission-related investment target. The EC will have the responsibility to adjust the target based on opportunities, the results of the initial efforts, and the economic environment. The MIC appreciates that staff, leadership, and the

Board will continue to learn through future implementation. The Executive Committee will monitor the implementation of the policy, gauge the effectiveness of the strategies employed, and assess any required course corrections or changes to the policy documents. When there is a need to review the mission investing strategy or the governance of the Foundation's mission investments, the EC can choose to guide that review itself or suggest another approach.

In order to implement the recommendations of the Mission Investing Committee, the full Board will not only need to approve the recommendation, but also amend a number of other documents to reflect new responsibilities for the Investment, Audit, Programs and Executive Committees, the spending policy, PRI policy, signing authority, and the current practice related to Excess Accumulated Distributions.

Conclusion

The Mission Investing Committee (MIC) recommends that the Foundation adopt a strategy designed to participate in the growing movement among foundations to achieve a greater impact by deploying assets above the IRS-mandated distribution of 5 percent. The recommendation that $40 million, approximately 10 percent of current assets, be dedicated to mission investments puts the Foundation at the vanguard of the new movement. The MIC's aim is not only to expand the Northwest Area Foundation's knowledge and experience in this area, but also to assist the mission investing field in the development of new strategies that advance the work of the philanthropic community.