



# Building Trust & Equity

**What The California Endowment Has Learned from Over a Decade of Impact Investing**



By Cassandra Benjamin,  
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# Foreword

**At The California Endowment, our history of working at the intersection of health and racial equity has taught us important lessons that influence how we put our capital to work. These lessons feed our continuous inquiry for what more we can and should do to further our mission of wellness, inclusion, and shared prosperity for all Californians.**

Our ongoing Impact Investing journey has been enlightening, leading us to more provocative questions: How can we intentionally align The Endowment's values with our investments? How do we use and think about our investments as another tool for impact? How do we think about equity, particularly racial equity, across our investments?

As we continue to deepen our commitment to this work, we're excited about the progress we have made. We are also reflective.

Part of our learning has been about how we can amplify our grantmaking impact by also using our identity and capital as a significant institutional investor. Our grants are focused on power building and advocacy in California. A variety of impact investing tools allow us to take additional, innovative approaches to support community needs such as affordable housing and access to capital for entrepreneurship and wealth creation. The institutional investor identity opens doors to new conversations, new partnerships, and brings about powerful new ways of working to influence markets in favor of the historically marginalized communities we seek to support.

Like many other foundations, when we embarked on our impact investment journey, we began primarily making program-related investments, which is the focus of this report. In the more than decade of making PRIs, these loans and guarantees have supported greater access to health services, fresh foods, affordable housing, and responsible financial services among all populations in the state of California, especially undercapitalized communities.

In doing this work, we believe listening to those we seek to support is paramount. As such, we focus on increasing capital flows into communities and putting them in the driver's seat for how capital in their communities is used. By combining our annual grantmaking budget of \$175 million with our growing Impact Investing allocation of \$250 million, The Endowment is increasingly injecting capital into communities that need it the most.

Encouraged and excited by our progress with PRIs, The Endowment has also committed to making Mission Related Investments (MRIs) and is exploring other impact investing models and ideas to accelerate and deepen community power.

The road hasn't always been certain, and we have taken some detours and asked for directions from many of you along the way. What's been clear is in the report title: that when we imbue trust and equity into the process, communities build power on their terms.

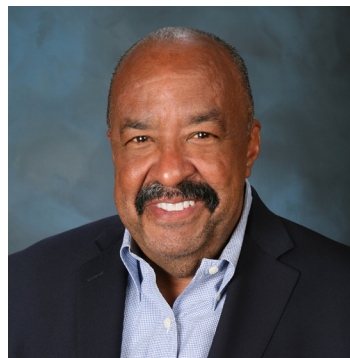
Now is an ideal time to reflect on this journey. We hope that by sharing what we've learned, we will inspire our peers to join us in mobilizing more capital for the communities we serve. There is still so much more to do. We welcome your partnership in building a better, inclusive California, and beyond.

Onward,



**Robert K. Ross, M.D.,  
President & CEO**

**Leslie B. Kautz, CFA,  
Investment & Finance Committee Chair**





# Executive Summary

# EXECUTIVE SUMMARY

## Purpose & Methodology

Since its first PRI in 1999, The Endowment's approach to Impact Investing has developed and expanded dramatically. The report is designed to capture that evolution, provide a retrospective analysis of its work, highlight areas of impact, reflect on learnings, and set the stage for its future aspirations.

The methodology included review and synthesis of internal documents and data regarding the PRI strategy, approach, impact, and evolution; interviews with 26 stakeholders representing The Endowment's Board, leadership, and Impact Investing team as well as peer investors, impact investing intermediaries, investees, and grantees; and dozens of meaning-making meetings with the Impact Investing team to identify key areas of impact, learning, and change.

## PRI Overview

The majority of The Endowment's \$250 million Impact Investing allocation consists of Program-Related Investments (PRIs), which are charitable, mission-aligned investments. The Endowment's PRIs are generally lower-cost loans that require repayment within a specific time frame. The Endowment primarily makes PRIs to community-based nonprofit financial intermediaries that are proximate to community, enabling collaboration that advances community priorities related to health and racial equity, a key social determinant of health.

**The purpose of The Endowment's PRI strategy is to transform capital investment practices into those where community voices and power are centered. Rather than "doing deals" with a traditional mindset of growing its own capital, the desire is to inject capital systemically to democratize solutions and put community priorities first.**

The Endowment has a \$200 million PRI allocation from its corpus to advance its commitment to health and racial equity. Since 1999, it has issued a total of 56 PRIs into 41 organizations for a total of \$179 million in commitments. These PRIs include investments in social determinants of health broadly, including housing, access to healthy foods, health systems, small business, and other community development activities.

In 2015, realizing that capital alone was insufficient to address community priorities, The Endowment added aligned grants to its Impact Investing toolbox. Today, grants are instrumental to expanding its pool of investment partners and reaching low-income communities that are under-invested in by the traditional capital system. Grants can provide wrap-around support for PRIs, seed the PRI pipeline, spur innovation, and build field capacity. The Endowment allocates between \$4 to \$6 million annually for PRI-aligned grants that are awarded through CEO Programs in collaboration with the Impact Investing team.

## PROGRAM-RELATED INVESTMENT PORTFOLIO SNAPSHOT (1999-2022)

**\$179 MILLION**

committed in PRI loans and guarantees

**\$139 MILLION**

funded in PRI loans

**56**

PRIs made to 41 organizations

**\$116,000-\$20 MILLION**

range in PRI size with a median of \$2 million

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## PRI-ALIGNED GRANTS SNAPSHOT (2015-2022)

**\$24.5 MILLION**

in PRI-aligned grants

**59**

grants to 35 organizations

**\$25,000-\$3.2 MILLION**

range in grant size with a median of \$200,000

**67%**

were awarded to current PRI recipients

## PRI Framework

**GOAL:** Equitable, inclusive, and just community investment ecosystem that prioritizes low-income and underserved communities in California.

PRINCIPLE 1	PRINCIPLE 2	PRINCIPLE 3	PRINCIPLE 4
<b>Advance Racial Equity</b> Align capital to advance health and racial equity, catalyzing a more racially just financial ecosystem by embedding racial equity in all PRI activities, from pipeline development to deployment and ongoing partnership management.	<b>Trust-Based Impact Investing</b> Provide support 'beyond the check' including thought partnership, connections to additional investors, and longer-term, more flexible investment structures.	<b>Center Community Priorities</b> Select partners who are strongly embedded in community, engage in deep listening and inquiry with partners, and provide larger and more flexible investments to build mutually beneficial partnerships with values-aligned actors.	<b>Strengthen Ecosystems</b> Take a long-term view to building a more robust and equitable community investment ecosystem by using a combination of grants and PRIs to experiment, redefine risk, and address system gaps for under-capitalized communities.

## Learning

Through its twenty-plus years of Impact Investing, and particularly in its more strategic PRI work over the last eight years, The Endowment has been on a continual quest for deepening access to capital and positive impact for low-income communities. This journey has not been easy — it has required deep listening, reflection, recalibration, and iteration — and remains an ongoing process. In reflecting on this arc of learning, The Endowment and consulting team identified three critical areas to share:

**Embedding Racial Equity** — moving from statements and commitments toward operationalization at every level of PRI-making, including programmatic review, due diligence, and monitoring. It is also critical to set concrete goals for accountability, evaluate progress, identify learnings, and adopt new practices.

**Redefining Risk** — moving from the exclusive focus on financial risk toward a shared focus that prioritizes programmatic risk and social impact. The Endowment's increased risk tolerance is made possible through a risk rating framework coupled with a PRI Investment Policy Statement; a due diligence process that looks at non-financial factors in mitigating risk; and a culture that is explicit about risk.

**What It Takes** — moving from staffing, culture and structures built around deals and transactions toward learning and innovation. This requires:

- » **Aligned Board & Executive Leadership** — committed to learning, risk-taking, and generating long-term impact
- » **Collaborative, Knowledgeable, & Sufficient Staffing** — that bring technical expertise, strategic vision, and the ability to build trust-based relationships
- » **Culture of Learning** — a listening and learning orientation and an appetite for testing new approaches and adapting its own practices
- » **Flexibility Across Financial Tools** — from deploying grants, low-interest loans, and loan guarantees to developing new, co-created financial structures in order to meet community priorities
- » **Translating Ambition to Operational Practice** — developing and institutionalizing practices and policies to ensure that learning is codified



# Introduction

## OVERVIEW

**The California Endowment is a private non-profit, statewide health foundation that works to make California a healthier place for all.** Created through a health care conversion in 1996, it now has more than \$3.5 billion in assets and awards over \$175 million in grants annually to community-based organizations. Its vision is a “California for All” that leads the nation as a powerful and conscientious voice for wellness, inclusion, belonging, and shared prosperity.

Over a decade ago, The Endowment considered what more it could do beyond grantmaking to accelerate and deepen its impact for the communities it serves. It chose to begin using some of its investment assets to deliver more than financial returns but to also generate social returns, too. This approach is described by philanthropy and investors as “Impact Investing.”

Today, The Endowment uses a range of financial tools in its Impact Investing practice, all with the intention to empower communities and support not just health but key social determinants of health and overall well-being. The majority of The Endowment’s current \$250 million Impact Investing allocation consists of Program-Related Investments (PRIs). Program-Related Investments are charitable, mission-aligned investments which are unique to philanthropy. The Endowment’s PRIs typically take the form of low-cost financing and loans, which require repayment within a specified time. The Endowment primarily makes PRIs to community-based nonprofit financial intermediaries that are proximate to community, enabling collaboration that advances community priorities related to health and racial equity.

PRIs to intermediaries can support communities in ways that grants and traditional investments cannot: provide loans with reasonable interest rates and payback terms for small business owners with limited credit history and/or collateral; support early funding that gives other investors confidence to join in developing affordable housing and community infrastructure such as grocery stores; and guarantee financing to enable transactions, in sectors like fresh food access and climate, which but for the credit enhancement would not move forward. Once those PRIs are repaid, that capital can be invested again and again into the community.

As a way to deepen the impact of PRIs and strengthen the ecosystem of capital and intermediaries serving community needs, The Endowment sometimes provides “aligned grants” from the CEO Programs Office, who also participate on the Impact Investing team. Grants are awarded to strengthen the programmatic work of community partners so that The Endowment’s PRI partners can deepen their impact, advance racial equity and build their risk-taking capacity. Aligned grants can also improve The Endowment’s investment pipeline of future PRI recipients.

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## WHY THIS MATTERS

As a society, we have been consistently underinvesting and underfunding low-income communities, which deepens wealth inequality across our state. Comprehensive approaches that address community priorities such as access to capital and financial entrepreneurship, affordable housing, and grocery stores that provide fresh food access, are all critical elements of an inclusive, thriving community.

The purpose of The Endowment’s PRI strategy is to transform capital investment practices into those where community voices and power are centered. Rather than “doing deals” with a traditional mindset of growing its own capital, the desire is to inject capital systemically to democratize solutions and put community priorities first.

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# Investment Continuum

Foundations employ a range of Impact Investing tools in pursuit of their missions, including PRIs and Mission-Related Investments (MRIs). Over time, Mission-Related Investments — market-rate positions that leverage all asset classes as a way to target social outcomes and reduce societal and environmental harms — has outpaced PRIs as a practice. [The Global Impact Investing Network](#) estimates the current impact market worldwide to be around \$1.2 trillion for institutional and private investors, and the amount continues to grow.

While this report is focused on The Endowment’s Impact Investing practice and more specifically, its Program-Related Investments, it has activated additional parts of its investment assets toward mission. More recently, The Endowment began experimenting with how to increase programmatic alignment with its Mission-Related Investments (MRIs). In 2020, The Endowment created a pilot within the Impact Investing practice to test this programmatic approach with Mission-Related Investments (MRIs). Unlike PRIs, MRIs seek both a market-rate return as well as a social impact return. In addition, across its main endowment assets, The Endowment is increasing its support of diverse fund managers and the adoption of responsible ESG practices across its fund managers.



We hope The Endowment's experiences and reflections will provide concrete examples and relevant learning that excite and inspire other philanthropic investors, and those exploring Impact Investing for their institutions, to get started.

## Purpose

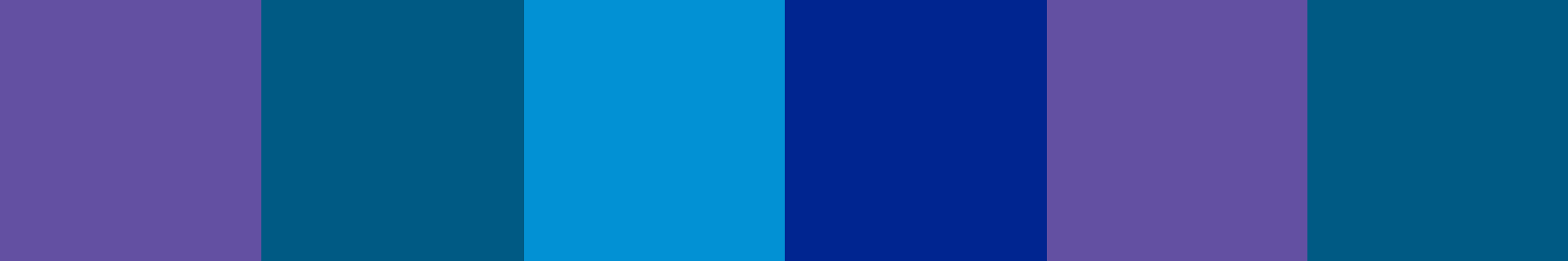
Since its first PRI in 1999, The Endowment's approach to Impact Investing has developed and expanded dramatically, along with the Impact Investing field as a whole. This report is designed to capture that evolution, provide a retrospective analysis of its work, highlight areas of impact, reflect on learnings, and set the stage for future aspirations. It begins with an overview of The Endowment's PRIs to date, a description of its PRI framework, and shares highlights of how it brings its core investment principles to life. The report then shares areas of significant learning, recommendations for advancing racial equity through investment, and potential future directions for creating an inclusive and equitable community investment ecosystem.

The Endowment commissioned this report not just to share its approach or outcomes, but to encourage and foster learning for itself, its partners, and the field at large. The team has a deep commitment to ongoing reflection, learning, and pivoting to accelerate and deepen community impact. This learning practice drives creativity and experimentation and helps The Endowment evolve to create new tools, models and structures that accelerate and deepen community power.

## Methodology

The Endowment hired [csb philanthropic solutions](#), in partnership with [Mt. Auburn Associates](#), to conduct a retrospective scan of its work and illuminate key areas of learning along the way. In order to do so, the consulting team:

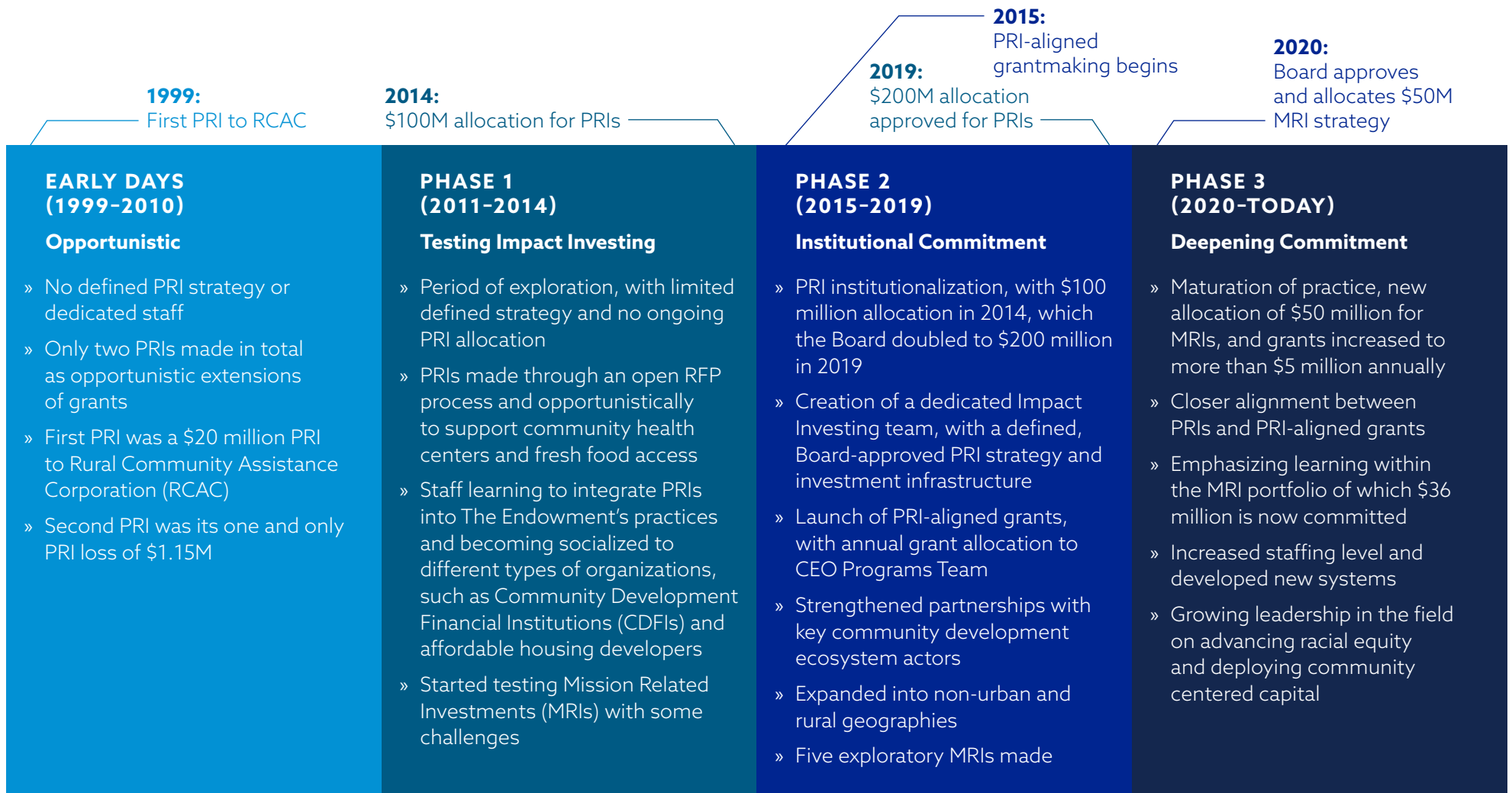
- » Reviewed and synthesized internal documents and data regarding the PRI strategy, approach, impact, and evolution
- » Considered this data within The Endowment's emerging MRI and overall Impact Investing approach
- » Co-created a framework that synthesizes The Endowment's PRI approach and core principles
- » Conducted research on relevant philanthropic PRI approaches and frameworks in order to contextualize The Endowment's approach in the broader field
- » Interviewed 26 stakeholders representing The Endowment's Board, leadership, and Impact Investing team as well as peer investors, Impact Investing intermediaries, investees, and grantees
- » Facilitated dozens of meaning-making meetings with the Impact Investing team to identify key areas of impact, learning, change, and potential future directions



# History & Investments

# HISTORY

**The Endowment launched its Impact Investing work in 1999** and has evolved its PRI approach and practice over time, exploring how best to use capital to advance racial equity and community priorities. Over twenty plus years, The Endowment’s Impact Investing work has moved through four general phases with a number of key milestones along the way.



## PROGRAM-RELATED INVESTMENT PORTFOLIO SNAPSHOT (1999-2022)

**\$179 MILLION**

committed in PRI loans and guarantees

**\$139 MILLION**

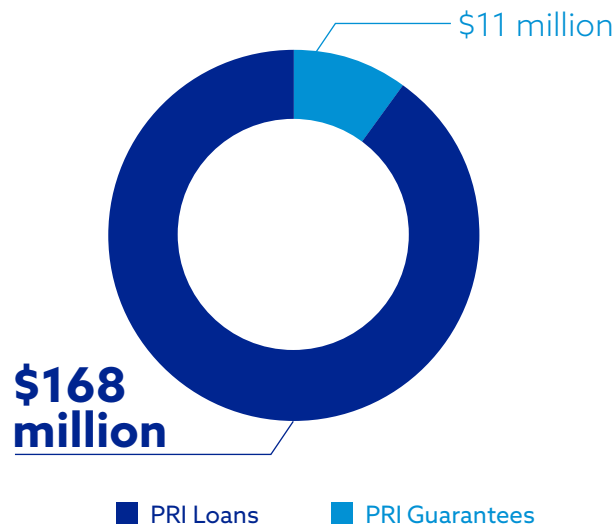
funded\* in PRI loans

**56**

PRI's made to 41 organizations

**\$116,000-\$20 MILLION**

range in PRI size with a median of \$2 million



\* Funded amount represents the total drawn down by PRI partners and disbursed by The Endowment, which may be lower than the total amount committed. PRI guarantees are also not included in the funded amount.

## PROGRAM-RELATED INVESTMENT PORTFOLIO

**Program-Related Investments (PRIs) are used to advance The Endowment's mission and values.**

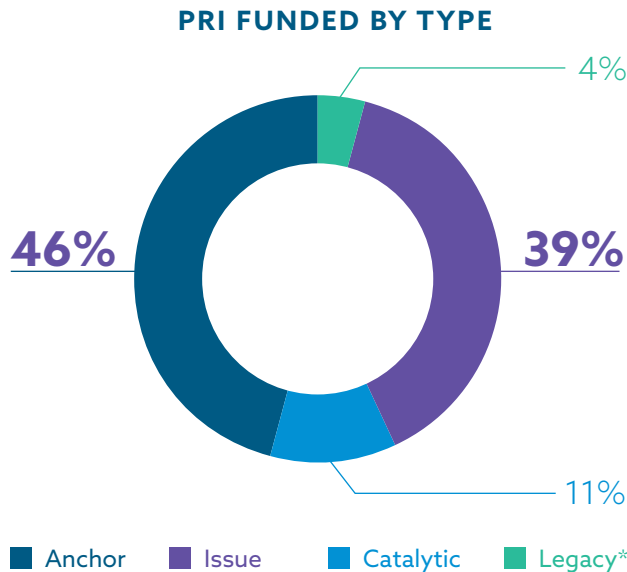
They are financial instruments that provide more flexible terms than traditional financial institutions. Many of The Endowment's PRIs are made as long-term loans, and it is increasingly experimenting with other financial products that will advance its mission, such as guarantees and equity investments. Though the structure of individual PRI loans may vary, PRIs are repaid with a modest return, which allows The Endowment to recycle these funds for other impact purposes. The typical PRI recipient is a community-based non-profit financial intermediary, and some PRIs are strategically combined with grants to deepen community impact.

The Endowment has a \$200 million PRI allocation from its corpus to advance its commitment to health and racial equity. Since 1999, it has issued a total of 56 PRIs into 41 organizations for a total of \$179 million in commitments. These PRIs include investments in social determinants of health broadly, including affordable housing, access to healthy foods, health systems, small business, and other community development activities. The majority of the PRIs are loans, though four were guarantee commitments that helped their guarantee recipients unlock additional capital.

## PRI Typology

**The Endowment's approach to its PRI strategy has evolved over time.** In 2018, the Impact Investing team adopted a typology to classify its PRIs as Anchor, Issue, or Catalytic:

- » **Anchor PRIs** are primarily general recourse loans to partners that closely align with The Endowment's mission, geography, core values and targeted populations. Anchor partners are central capital partners in their geography and have demonstrated capacity to absorb and distribute capital and support low-income populations through various economic and political cycles. Anchor PRI recipients often serve as thought partners to the Impact Investing and CEO Programs teams, and they often work together with The Endowment staff to explore new innovations and products that deepen their racial equity and community impact.
- » **Issue PRIs** are investments in specific initiative areas, including community health centers, fresh food, and affordable housing. These PRIs enable The Endowment to have a portfolio of similar investments where lessons learned can be shared and scaled with the field.
- » **Catalytic PRIs** are investments made to support potential "catalytic" innovation and/or in response to external events that may arise. These PRIs may be time sensitive and required to support the broader vision and mission of The Endowment.



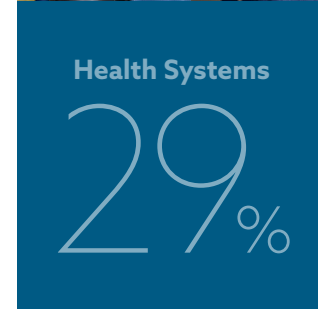
\* Legacy PRIs are investments that The Endowment made before they adopted the PRI Typology in 2018 and do not fit into the Anchor, Catalytic, and Issue categories.

## PRIS FUNDED BY ISSUE AREA



Fresh Foods

10%



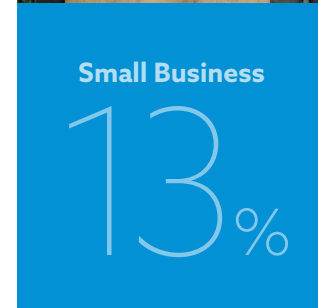
Health Systems

29%



Affordable Housing

21%



Small Business

13%



Community Development

27%

"Grants in addition to PRIs are critical to supporting the innovation and long-term partnerships needed to create greater opportunities for under-invested communities."

— Judi Larsen, Managing Director, CEO Programs

## PRI-ALIGNED GRANT PORTFOLIO

**In 2015, realizing that capital alone was insufficient to address the needs of community, The Endowment added aligned grants to the Impact Investing toolbox to amplify and enhance a PRI's mission success.** Today, grants are instrumental to The Endowment's Impact Investing approach and help center community priorities and expand its pool of investment partners in order to reach low-income and non-urban communities that are under-invested by the traditional capital system. The Endowment allocates between \$4 to \$6 million annually for PRI-aligned grants that are awarded through CEO Programs in collaboration with the Impact Investing team.

### Grant Strategy

Grants are designed to complement PRIs and build toward an equitable and inclusive community investment system. They are designed to do one or more of the following:

- » **Provide wraparound support for PRIs.** Grants are made to organizations when they receive a PRI or while in the process of deploying a PRI. These grants support the impact goals of the PRI or build the capacity of the PRI partner to apply racial equity and community priority principles when deploying the investment.
- » **Seed the PRI pipeline.** Grants help cultivate potential new PRI partners and/or build a pipeline for future PRI deals.
- » **Build the field.** Grants support knowledge and capacity building towards a more equitable and inclusive Impact Investing field and system in California and beyond.
- » **Spur Innovation.** Grants test new ideas, support innovation, and further the Impact Investing team's learning goals and other priorities. These grants may or may not lead to a future PRI.

### ALIGNMENT WITH PRI PORTFOLIO



Percentages exceed 100% because some grants support The Endowment's PRI strategy in multiple ways.

**PRI-ALIGNED GRANTS SNAPSHOT  
(2015-2022)**

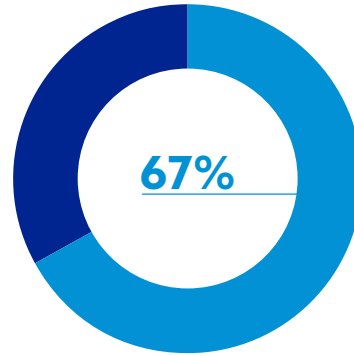
**\$24.5 MILLION**  
in PRI-aligned grants

**59**  
grants to 35 organizations

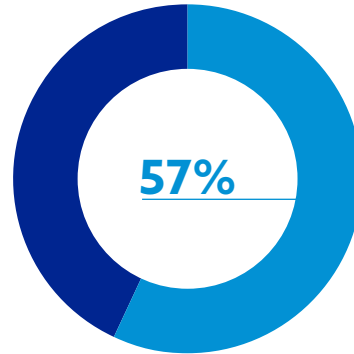
**\$25,000-\$3.2 MILLION**  
range in grant size with a median of \$200,000

**67%**  
were awarded to current PRI recipients

**GRANTS TO CURRENT PRI PARTNERS**



**GRANTS TO BUILD ECOSYSTEM  
IN RURAL GEOGRAPHIES**



**ALIGNED GRANTS BY ISSUE AREA**



Fresh Foods

**13%**



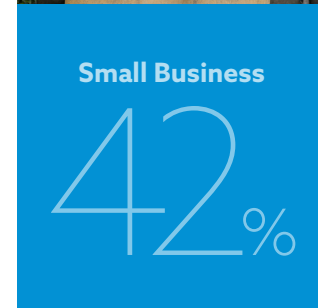
Health Systems

**4%**



Affordable Housing

**20%**



Small Business

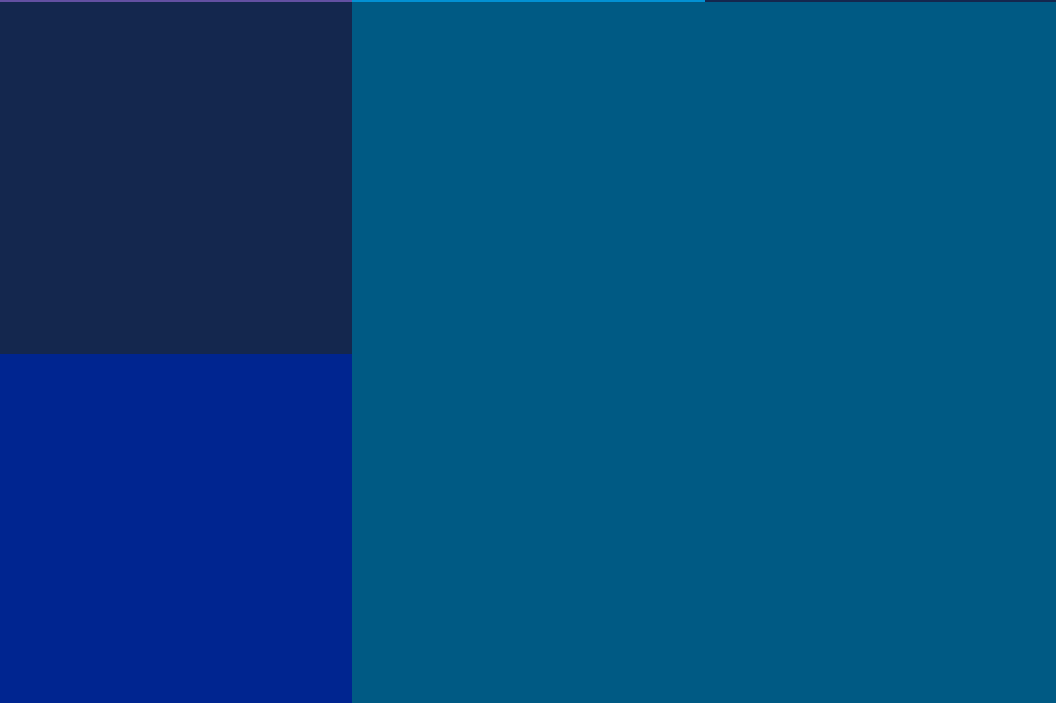
**42%**



Community  
Development

**24%**





# PRI Framework

“The Capital Absorption Framework helps community leaders and residents define local priorities, develop and execute pipelines of investable deals to achieve those priorities, and ultimately create supportive enabling environments of policies and practices to accomplish those deals more efficiently and effectively.”

— Center for Community Investment

## PRI FRAMEWORK OVERVIEW

**The Endowment’s overall commitment to people power, leadership and changemaking underpins its PRI approach.** This commitment enables flexibility across issue areas. A set of principles guides how the team carries out its work to ensure focus on the communities’ stated priorities, rather than presupposing any specific ones.

The Endowment’s current principles-based approach is the result of the organization’s foray into Impact Investing over the last decade — a journey that has been fruitful, but sometimes bumpy with important and hard lessons learned along the way.

By pursuing this approach and sharing the practices and learning with the field, The Endowment intends to not only achieve positive impact from its individual investments in issue areas such as fresh food, affordable housing, and access to healthcare, but to also contribute to an improved community investment system in California. Ultimately, The Endowment seeks to help create an equitable, inclusive, and just community investment ecosystem that prioritizes low-income, under-capitalized communities.

The Impact Investing team’s view of the ecosystem is influenced by the work of the [Center for Community Investment](#) and embeds central aspects of the Center’s Capital Absorption Framework in its work.

In broad terms, The Endowment seeks an investment system where there is sufficient, flexible, and efficient capital flowing to pipelines of projects across the state that advance racial equity and directly respond to community-determined priorities.

The Impact Investing team plans to continue to evolve and adapt its PRI approach over time, ensuring responsiveness to its partners and ultimately to those who are on-the-ground and closest to the solutions. The next section describes the principles through which The Endowment plans to continue to invest, learn, and catalyze community priorities.

# PROGRAM-RELATED INVESTMENTS FRAMEWORK

## THE CALIFORNIA ENDOWMENT'S VISION

A California that leads the nation as a powerful and conscientious voice for wellness, inclusion, and shared prosperity.

### PRI GOAL

Equitable, inclusive, and just community investment ecosystem that prioritizes low-income and underserved communities in California.

### PRI PRINCIPLES

#### PRINCIPLE 1

Advance racial equity

#### PRINCIPLE 2

Trust-based investing

#### PRINCIPLE 3

Center community priorities

#### PRINCIPLE 4

Strengthen ecosystems

## ADVANCE RACIAL EQUITY

**The Endowment's Impact Investing practice is committed to aligning capital with its mission of advancing health and racial equity in California.** The team works to catalyze a more racially just financial ecosystem in California by embedding racial equity in all their PRI activities, from pipeline development to deployment and ongoing partnership management. The Endowment's commitment to furthering racial equity, a key social determinant of health, influences the PRI portfolio in terms of both the investment priorities as well as the structure of the PRI itself.

Aligned grants are also critical to the team's approach to advancing racial equity and are used to deepen partners' staff capacity, support shifts in how partners deploy capital, and seed new partnerships with organizations that hold potential for PRI investments in the future. The majority of aligned grants are awarded to improve the capital flow to underserved communities and deepen racial equity practices.

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"As we were structuring the fund, thinking about who we were going to target and what kind of impact we wanted to see, The Endowment was out front pushing for us to really center racial equity and track how many of the health centers we are funding are BIPOC-led and also to track the demographics of the patient base." – **Kelly Bougere, Director, Capital Impact Partners**

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### WHY THIS MATTERS

The California Endowment recognizes that there is no health equity without racial equity. Systems that enable health in the United States — housing, food, transportation, education, and more — were in many cases, intentionally designed to exclude people of color. Capital touches every one of these social determinants of health. In centering racial equity, The Endowment acknowledges that past and seeks to use that same tool, capital, to address the inequities, and create wellness, inclusion, and shared prosperity for all Californians.

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## Principle 1 in Action



**Three-year \$900,000 catalytic grant to [African-American Alliance of CDFI CEOs](#).** Funds provide capacity to advance several areas of work including: the piloting and launch of the [African American Equity Scorecard](#), which aims to shift the criteria by which organizations assess project impact; programming designed to help more Black-led CDFIs become AERIS-certified (rated highly on financial strength, performance, and impact through a comprehensive, third-party assessment); and the expansion of the Alliance's advocacy for systems and regulatory change at the federal and state level. All of these are designed to build a more inclusive and equitable community investment ecosystem.



**Five-year, \$7 million catalytic PRI and \$500,000 grant to [Mercy Housing California \(MHC\)](#)** to support its [California Land Acquisition Fund](#). The Fund enables MHC to compete for opportunistic land acquisitions more nimbly, decreasing development time and costs. It also supports MHC's racial equity and impact approach to developing affordable housing. The Endowment values MHC's long-standing initiative to increase racial equity, diversity, and inclusion internally, as well as its commitment to explicitly shift the organization toward greater resident leadership. Together, The Endowment and MHC developed specific impact outcomes for the Land Fund with an explicit equity focus, including developing housing in high opportunity neighborhoods with access to good schools, parks, health care centers, and other essential community amenities.



**Three-year \$900,000 catalytic grant to [NDN Collective](#)** that is working to dramatically scale up investment and shift decision-making power to Indigenous Peoples grounded in resilient and regenerative Indigenous lending principles. NDN Collective includes the NDN Fund that provides access to technical assistance, capacity building and low-interest and patient debt investments for Indigenous-led nonprofits, Native nations, and Indigenous communities in California. The grant is designed to build a pipeline of community-led investments in California tribal communities that could benefit from future Program-Related Investments.

## PRACTICE TRUST-BASED IMPACT INVESTING

### WHY THIS MATTERS

The Endowment, as is the case with philanthropy more broadly, sits in a position of power in its relationship with community due to the resources it can bring to bear. The Impact Investing team is working to openly name that elephant in the room and intentionally approach its work with humility. As such, staff are explicit in asking — What do you need? What can we offer? What are you ultimately trying to achieve? Often, the answer is not just a financial transaction. The Impact Investing team sees a responsibility to draw on a more comprehensive set of resources — the team’s capabilities, experience, connections — to co-create and support low-income communities.

**The Endowment’s PRI strategy has been influenced by the frameworks and principles outlined in [Trust-Based Philanthropy’s approach to grantmaking and partnership](#).** Offering flexible funding and ‘support beyond the check,’ The Endowment provides a range of resources to accelerate community priorities. From longer-term commitments to more flexible investment structures, The Endowment seeks to provide catalytic capital, thought partnership, access to additional investors, and other support that might help create equitable and sustainable change.

Additionally, The Endowment plays a leadership role in bringing other investors to the table by making the first (and often largest) commitment, developing deal structures, and sharing due diligence. The Endowment is also an active matchmaker, connecting partners directly with other investors. This work has helped align other PRI investors with the capital needs of intermediaries focused on addressing community needs, attract new investors for PRI partners, and ultimately leveraged greater investment in affordable housing, health equity, food access, and small business development.

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“The California Endowment’s move to provide six-month loan forgiveness during COVID-19 was proactive and unsolicited, making it a powerful act of solidarity. I can’t overstate the emotional impact of being seen and respected in this way.”

— Antony Bugg-Levine, Former CEO, Nonprofit Finance Fund

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## Principle 2 in Action



**In 2011, The Endowment, in partnership with many other funders and investors, created the [FreshWorks](#) program to increase fresh food access throughout the state of California.** In 2017, based on learning from the first iteration, The Endowment partnered with [Community Vision](#) to co-create a second round focused on supporting more community-centered approaches to healthy food financing for underserved communities. The Endowment provided significant early investments in the form of a non-recourse PRI, guarantee and grant dollars to ensure that Community Vision had the resources to lead it from both a programmatic and financial standpoint. Community Vision then worked with The Endowment to raise additional non-recourse PRIs to provide \$8 million in credit enhancement, unlocking more private capital and allowing for more flexible loan terms for the fresh food borrowers. At the time, the use of non-recourse PRIs and guarantees as credit enhancement, were still relatively new tools for both organizations. They agreed to test these tools to support more community-centered deals and deepen social impact. This financing model combined with grants allowed the FreshWorks program to broaden its outreach and engage healthy food enterprises that were local, at an early stage, and not immediately ready to take on debt capital. Since the relaunch in 2017, the program has deployed grants and financing to 36 organizations totaling over \$79 million, with 89% of grant and loan recipients identifying as BIPOC.



**When the COVID-19 crisis hit, The Endowment's PRI borrowers were on the front lines of supporting place-based community needs in CA.** In early outreach conversations, the Impact Investing team learned of the many ways that its PRI borrowers were proactively responding to the crisis and their clients' needs. In solidarity with its PRI partners, The Endowment announced in April 2020 that it would provide six-month interest forgiveness for all PRI borrowers. The Endowment was one of the first foundations to respond with this type of support, and the interest forgiveness resulted in about \$521,000 in lost interest income. In a follow-up survey, PRI borrowers shared how the interest forgiveness period helped them to provide relief to their borrowers; supported organizations with cashflow; enabled the purchase of personal protection equipment and upgrades to office space to comply with CDC guidelines; and helped support racial equity and justice trainings for all staff.

## CENTER COMMUNITY PRIORITIES

**The Endowment Board and staff leadership articulate a strong commitment to building people power and elevating community leadership as a core institutional value throughout the organization.** The Impact Investing team has sought new ways to use The Endowment's assets so communities can have greater autonomy and voice in bringing their visions to life. The Endowment works to center community priorities by carefully selecting partners who are strongly embedded in community, engaging in deep listening and inquiry with partners, and providing larger and more flexible investments.

The Endowment views its PRI work as more than a series of financial transactions, but rather building mutually beneficial partnerships with values-aligned actors. The Impact Investing team cultivates partnerships through two-way learning, thought partnership, customized support, and outreach to other investors. The team is committed to engaging partners in a spirit of co-creation and making space for discussion, support, and connections in order to more holistically understand and center community priorities.

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"I have the most trust in The Endowment in being able to listen to us, to understand when we have what sound like crazy ideas. We can say, 'Hey, we heard this from the community and that's what we're thinking about,' and they're happy to engage, help flesh it out, and think about how they might be able to be involved."

– Catherine Howard, President, Community Vision

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### WHY THIS MATTERS

Health happens where we live, work, learn, and play — in community. We all want safe neighborhoods where children can ride bikes and play together, families can access healthy, affordable foods, and everyone has a place to call home. But systems, embedded with structural racism, aren't delivering what communities need, particularly for people of color. We have to try something new, and we believe that the answer resides in community, not in The Endowment. A thriving, healthy community requires mission-driven capital that listens to and centers community priorities.

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## Principle 3 in Action



**Capital Impact Partners**, a long-time, anchor CDFI partner investing in community health centers, worked with The Endowment to respond to community priorities early in the COVID-19 pandemic. During COVID-19, health centers played a critical role in the community and simultaneously faced a financial crisis. The Endowment worked with Capital Impact Partners on the design of a response fund and was able to bring a catalytic multi-million-dollar investment recommendation for Board approval in just two months, a fraction of the normal time. Capital Impact Partners designed a structure that was recourse only to the underlying community health centers and had longer terms for working capital type loans. The Endowment deferred to them on the loan structure, trusting that they knew best what type of terms the health centers would need. The resulting [CPCA COVID-19 Recovery Fund](#) provided \$25 million in flexible capital to community health centers, with The Endowment contributing nearly one-third of the total (\$8.25 million). The Endowment played an instrumental role in the development and launch of this Fund, serving as the lead investor and cultivating others, including JPMorgan Chase and UnitedHealth Group, to invest. Ultimately, the Fund provided working capital to eight community health centers who operate 127 clinic sites in total, serving nearly 330,000 patients annually. Sixty-seven percent of the clinics invested in are BIPOC-led.



After hearing from community partners about the need for more community ownership and financing models, the Impact Investing team was opportunistically introduced to [ROC USA](#), a national CDFI that provides capacity building, technical assistance, and financing for residents to cooperatively purchase, own, and run manufactured home communities. In 2022, The Endowment approved a \$6 million PRI and \$800,000 grant to ROC to scale their work in California, help unlock additional state funds, and allow them to further develop and finance a pipeline of opportunities. The Endowment's investment is designed to catalyze enduring infrastructure for cooperative ownership of manufactured home parks and have long-term impacts for low-income and BIPOC communities throughout the state through the promotion of long-term housing stability and cooperative governance.

## STRENGTHEN ECOSYSTEMS

### WHY THIS MATTERS

An effective community development financial ecosystem enables capital to meet community priorities and can be used to intentionally advance health and racial equity. However, money alone is rarely the solution, and even if it were, The Endowment's resources alone are insufficient to meet the need or opportunity in California. As such, the Impact Investing team works with a broad range of community stakeholders and supports catalytic and mission critical investments, so that The Endowment's resources can help build a healthier ecosystem that creates wellness, inclusion, and shared prosperity.

**The Impact Investing team takes a long-term view to building a more robust and equitable community investment ecosystem by using its combination of grants and PRIs to experiment, redefine risk, and address system gaps.**

The Endowment uses its resources to address systems gaps and contribute to a more equitable ecosystem where investment can flow more freely in the future, particularly for under-capitalized communities, in a number of ways:

- » Demonstrate what is possible through innovative partnerships or financial products
- » Support existing system players in embedding core principles such as racial equity and community centered approaches
- » Encourage new entities that embody core principles to play more active roles in the California ecosystem
- » Share learning with its partners to encourage system-wide reflection and improvement

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“From the outset, The Endowment was incredibly trusting in the concept of the California Small Business Coalition for Racial Justice, and the impact we could have with their funding. They did not prescribe activities or dictate results but allowed us to chart our path based on what we were learning in the course of our work. This led to one of the most powerful learnings: democratizing philanthropy by giving grantees flexibility and ownership of their work is critical to achieving lasting impact.”

– Purvi Patel and Todd Cooley, Self-Help Federal Credit Union

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## Principle 4 in Action



**In 2020, The Endowment, recognizing the limited CDFI capacity operating in the Fresno area, conducted extensive on-the-ground conversations in Fresno which resulted in a PRI to a government entity, the [Fresno Housing Authority \(FHA\)](#).** The team started by leveraging The Endowment's long-standing grant relationships with community-based organizations that were working towards racial equity in the region and engaging with community partners. They also conducted a deep analysis of the capital development ecosystem, in which they learned about FHA's commitment to racial equity and community voice, as well as their capacity to absorb and invest capital in BIPOC and low-income neighborhoods. The Endowment then worked with FHA and the community-based organizations to develop joint program priorities that govern the programmatic uses of its PRI. Ultimately, The Endowment awarded a \$3 million PRI to FHA and worked with the Kresge Foundation to deliver another \$2 million PRI to test new models of affordable housing development that further community priorities. One example of how FHA has deployed this capital includes using \$2.9 million for site acquisition and pre-development for [Avalon Commons](#), a 106-unit housing development that will include community and green spaces and is located in a high-opportunity area with easy access to jobs and high-performing schools.



**In April of 2020, The California Endowment made a \$1.1 million grant to a long-term partner, [Self-Help Federal Credit Union](#), to support a state-wide coalition of small business lenders and technical assistance providers** focused on expanding Paycheck Protection Program (PPP) access to nonprofits and small businesses of color. As a result of this [collaborative approach](#), Self-Help and its partners were able to increase access to PPP for the communities and organizations that needed it the most, deploying 3,600 loans totaling \$156 million. The majority of the loans, 66%, went to businesses or nonprofits led by people of color, and the median loan size was \$23,000. Post PPP, The Endowment supported the pivot of this effort towards the development of an ongoing coalition across CA with Self-Help and 16 other community development organizations that form the [California Small Business Coalition for Racial Justice](#). The coalition mobilized to address the urgent problems facing small businesses at the peak of the economic crisis created by COVID-19, particularly small businesses led by entrepreneurs of color. Using a racial equity lens, the coalition seeks to lay the foundation for [long-term structural change](#) to strengthen the small business lending ecosystem in California through developing racially just underwriting guidelines; advocating for policies to advance racial justice at the state and federal level; and increasing their own DEI understanding and practices.

## GENESIS LA – BLOCK BY BLOCK



**The Endowment’s long-term anchor partnership with [Genesis LA](#) exemplifies many of the principles that guide its Impact Investing. Genesis LA (GLA) is a regional CDFI that works within low-income, BIPOC communities throughout the greater Los Angeles area.** GLA stands out among CDFIs for its ability to provide technical assistance, program management, and flexible capital with creatively structured deals to Los Angeles nonprofits that other CDFIs might deem as too risky. GLA is led by Tom De Simone, who plays a community leadership role, which The Endowment has come to recognize as critical in maximizing impact of PRI investments.

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“Tom is a unicorn in terms of his ability to speak and structure finance with a clear understanding of why you’re doing it from the programmatic lens. He’ll close deals that don’t pencil perfectly from a financial viewpoint — it’s just amazing the stuff that they’re willing to do to ensure community benefit.”  
— **Christine Ryan, Investment Officer (former)**

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GLA is deeply mission aligned with The Endowment. The Endowment estimates that about 30-40% of GLA’s investments over time have benefited The Endowment’s grantee network, which includes organizations such as [InnerCity Struggle](#), [East LA Community Corporation](#), and [Community Coalition](#). The Endowment considers GLA one of its anchor partners, as it is rooted in community, centers BIPOC, low-income community voice, demonstrates a commitment to racial equity, and has shown capacity to absorb and distribute capital while testing, piloting, and innovating new products.

**In 2022, The Endowment made its most significant foray into trust-based Impact Investing to Genesis LA, approving a PRI in the form of a \$10 million, 10-year limited recourse loan (recourse only to the underlying loans, not GLA's balance sheet) to advance not yet defined community priorities through the [Block by Block](#) program.**

The Block by Block program is piloting a new model for comprehensive community development in two Los Angeles neighborhoods intended to accelerate community driven projects and build healthy and vibrant communities. GLA and community partners, which include real estate and housing developers and nonprofit community advocacy organizations, are co-designing a collaborative community process to identify and develop real estate projects in their neighborhoods.

GLA will provide patient, early-stage capital to the developers to help them compete for and acquire critical development sites that have been identified collaboratively by the community partners. The programmatic goals and financial terms for the program will be determined through a co-creation process with community partners to help ensure that the Block by Block program is meeting community priorities. The collaborative work of the program among the partners, early predevelopment costs and other program needs is being supported by an aligned \$3.2 million, 3-year grant from The Endowment.

The Endowment's role extends beyond delivering the PRI and grant. The Impact Investing team is deeply involved in the program development of Block by Block, offering thought partnership and learning with and from GLA and the community partners. It is reaching out to California and national funders to help raise additional capital for this program. The Endowment intends to participate in a range of program design activities throughout the investment, recognizing the importance of their role beyond simply being a provider of capital.

"The Endowment reached out to me, at the beginning of this year, and effectively said, 'we're looking to invest deeper with some of our longer-term partners. What if we were to do so with more money, more flexibility, more time? What would that open up for you that you couldn't do otherwise?'"

— Tom De Simone, President & CEO, Genesis LA



Right: Tom De Simone



“We haven’t even borrowed the PRI for Block by Block yet, but we’ve been inviting The Endowment to our meetings with the community organizations. They went on site visits with us to learn about these neighborhoods and talk with the anchor organizations and nonprofits. And never in a paternalistic oversight way, but in a way to be informed, to help us all be better partners on the other end of the conversation.”

— Tom De Simone, President & CEO, Genesis LA

**The trust-based approach evident in The Endowment’s recent investment in Block by Block is possible because of its long-term relationship with GLA that started with a smaller, recourse PRI in 2012 that grew into a trusted relationship by 2018, demonstrated by higher risk, limited recourse PRIs that require significant co-creation, structuring and partnership.** Through a decade of multiple grants and investments, GLA and The Endowment have jointly experienced the positive impact of their partnership for communities and encountered difficulties along the way. Challenges such as working together to support small business real estate tenants that needed payment deferrals during COVID-19, have built a strong working relationship between The Endowment and GLA that paved the way for its current investment in the Block by Block program.

The Endowment has awarded more than \$4 million in grants and \$15 million in PRIs to Genesis LA over the last decade.

#### Early PRIs and Grants

- » **\$750,000 general recourse PRI** — 2012 support for the My Home, Mi Casa project in Boyle Heights
- » **\$2,500,000 general recourse PRI** — 2016 general recourse loan for GLA to provide financing for LA-based nonprofits
- » **\$75,000 Grant** — 2016 support for GLA’s technical assistance and capacity building work with LA nonprofits

#### Riskier, Limited Recourse PRIs and Larger Grants

- » **\$1,750,000 PRI** — 2018 capital for the [Community Owned Real Estate \(CORE\) Program](#) to acquire and renovate commercial and small business properties and lease them at affordable rates to nonprofits
- » **\$900,000 Grant** — 2021 support for the [CalCORE](#) program focused on building capacity for community ownership
- » **\$10,000,000 PRI** — 2022 approved (but not yet funded) support for Block by Block
- » **\$3,178,000 Grant** — 2022 support for technical assistance, coaching, and grants for community-based organizations participating in Block by Block and for overall program development





# Learning

“Learning is a two-way street. We contribute to our partners’ learning, and they contribute to our learning.”

— Amy Chung, Managing Director,  
Impact Investing

## OVERVIEW

**Through its twenty-plus years of Impact Investing, and particularly in its more strategic PRI work over the last eight years, The Endowment has experimented and learned and adjusted and learned again, in a continual quest for deepening access to capital and positive impact for BIPOC and low-income communities.** This journey has not been easy — it has required deep listening, reflection, recalibration, and iteration — and remains an ongoing process.

In reflecting on this arc of learning, The Endowment and consulting team identified several critical areas to share with the field:

- » **Embedding Racial Equity** — moving from statements and commitments toward operationalization at every level of PRI-making
- » **Redefining Risk** — moving from the exclusive focus on financial risk toward a shared focus that prioritizes programmatic risk and social impact
- » **What It Takes** — moving from staffing, culture and structures built around deals and transactions toward learning and innovation

The Endowment has learned much from other philanthropic investors and particularly its investee and grantee partners and hopes to add to and continue this learning cycle, collectively helping to move capital to community.



## EMBEDDING RACIAL EQUITY

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“Our commitment to health and racial equity in California is an organization-wide commitment. Everyone, and every department, at The Endowment is on this racial equity journey. Our overarching goal is to be able to center racial equity at every level and experience of The Endowment, including Board and staff diversity, contractor and consultant diversity, grantee diversity, grant strategy governance, and the use of our voice and brand. This includes Impact Investing, as our \$250 million commitment prioritizes racial equity across the portfolio.” – **Robert K. Ross, M.D., President & CEO**

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The Impact Investing team takes this mandate seriously and has learned that it must develop systems to operationalize and institutionalize the commitment in every phase of its work to have meaningful impact. The Team has discovered that it isn't enough to just look at a few processes or outcomes, but that it must consider every strategy and transaction from start to finish in order to prevent bias. This process is underway and is expected to be a continuous endeavor.

The team has operationalized their commitment to racial equity throughout the PRI process, and they continuously reflect with and learn from their PRI investees and aligned grantees to deepen impact and advance racial justice.

“Biases as shortcuts are triggered when we move too quickly. Creating processes that introduce friction act like bumpers on a bowling lane, reducing biases that could unintentionally creep into our behavior and actions.”

– Joanna Kuang, Vice President of Impact, Illumen Capital

# Incorporating Racial Equity at Every Stage of the PRI Process

## Overview

The California Endowment's Impact Investing team uses a comprehensive approach to evaluate PRIs for programmatic fit as well as financial risk. PRIs are made in alignment with The Endowment's mission and vision, incorporating the four principles identified prior. Financial due diligence involves evaluating a PRI's financial strength, potential for repayment, and management and organizational capacity.

In service of The Endowment's commitment to advancing racial equity, the PRI process is intentional about understanding how each PRI advances racial equity. While many other factors are considered in the process, the following steps outline the specific ways in which the Impact Investing team incorporates an understanding of racial equity practices and results during the due diligence process.

### Step 1: Develop Values-Based Partnerships

The Endowment provides PRIs to organizations that are working to better partner with and serve the needs of low-income communities in California. These partners often pioneer new ways to increase capital to historically disinvested, communities of color.

### Step 2: Programmatic & Credit Greenlight

In addition to financial and programmatic due diligence, the Impact Investing team asks all potential PRI partners about how their organizations think about diversity, equity, and inclusion and how racial equity is operationalized in their practices and policies. This conversation helps The Endowment understand whether there is organizational alignment on advancing racial equity and signals the importance of racial equity to prospective partners.

For organizations that are earlier in their racial equity journey, The Endowment has a frank conversation about how organizations might use the PRIs to deepen their commitment and respond to community needs. This racial equity conversation is an important input in the PRI greenlight process, which requires the full Impact Investing and CEO Programs teams agreeing on an organization's programmatic alignment in order to move forward with full due diligence.

### Step 3: PRI Due Diligence & Approval

During the PRI due diligence process, the Impact Investing team collects demographic data about each community partner's staff and Board, as well as information about their internal DEI practices and policies. The Impact Investing team has conversations with the organization's leadership and staff about the ways in which they further racial equity and center community voice.

Starting in 2021, staff began holding "community partner reference calls" for new PRI partners, where they interview community partners and ask how the investee shows up in community and about their commitment to racial equity. These conversations allow The Endowment to "ground truth" what they learn in their due diligence. As part of the approval process, the Impact Investing team assigns each PRI a risk rating, which contains an assessment of the investee's commitment to DEI within the organizational subcomponent score. Finally, staff prepare an investment memo for each borrower which includes a summary of their DEI and racial equity commitment.

### Step 4: Monitoring & Learning

In their PRI legal agreements, The Endowment requests that all borrowers update diversity data about their staff and board leadership on GuideStar, complete an annual social impact report, and have annual conversations with the Impact Investing team about their efforts to advance racial equity. In these annual reflections, the team ask questions about how each organization has furthered its racial equity goals, inquires about shifts in practices, and seeks suggestions for how The Endowment can support these goals.

### Step 5: Codifying Intent

The Endowment codifies its intent to advance racial equity in its governance documents including its Risk Rating Framework and its PRI Investment Policy Statement.

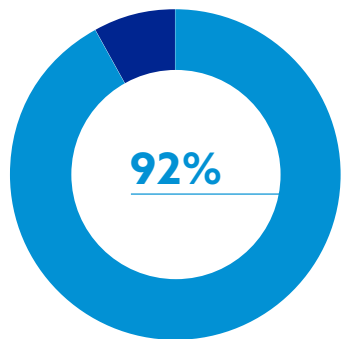
**Another key practice of advancing racial equity is to set goals for accountability and evaluating progress as cited by The Endowment's CEO and Managing Director of Impact Investing in a [2019 article](#) for the Stanford Social Innovation Review.**

In order to make this commitment actionable, The California Endowment developed a definition of BIPOC-led organizations as organizations where 50% or more of the Board of Directors is BIPOC; 50% or more of the staff is BIPOC; and the organization's mission statement includes a focus on serving BIPOC individuals, organizations and/or communities. The Endowment then asks potential grantee and investee partners to what degree they meet this definition and discusses ways that the organization may be exploring increases in these measures. The Endowment also reports publicly on the composition of its own Board, staff, and contractors.

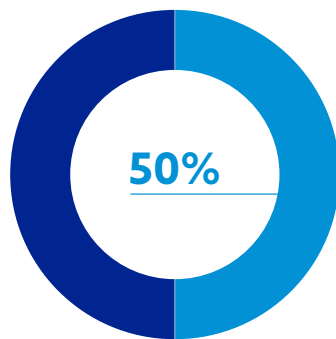
In reviewing the current PRI borrowers with available information, 83% meet The Endowment's definition of BIPOC-led across two out of the three measures.

In terms of its own staffing, 50% of The Endowment's Impact Investing team are people of color, and 75% are women, and The Endowment's Board of Directors is also a majority of women and people of color.

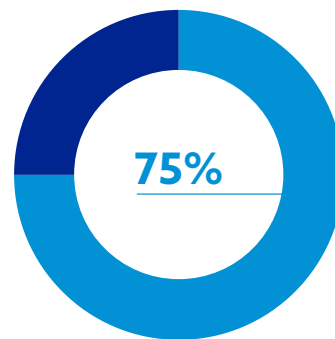
#### PROFILE OF THE ENDOWMENT'S PRI BORROWERS



Staff is 50% or more BIPOC



Board is 50% or more BIPOC



Mission Statement benefits underserved BIPOC communities

"They are very authentic about the racial equity commitment and concerned about making sure they are really generating solid, positive outcomes for people. They don't shy away from racially equitable outcomes analysis during due diligence, and then they actually bake it into the deal, which can be very challenging."

— Aaron Seybert, Managing Director, Social Investment Practice, Kresge Foundation

“There’s a sequence to how we think about it — we begin with a focus on programmatic impact, and then consider various financial strategies to best provide support with PRIs, a blended capital stack, and/or grant support. Because impact is the primary mindset, we have a higher tolerance for financial risk.”

— Dan DeLeon,  
Chief Financial Officer

## REDEFINING RISK

As a philanthropic investor with goals to center community priorities and build a more equitable community investment system, The Endowment sees an important role for its PRIs and grants to share risk alongside its partners that are innovating to reach deeper to address systematic inequities in capital access. Today, The Endowment has a greater tolerance for risk which is supported by the following: a risk rating framework coupled with a PRI Investment Policy Statement; a due diligence process that looks at non-financial factors in mitigating risk; and a culture that is explicit about risk.

### Risk Rating Framework and Investment Policy

Much like a traditional financial institution, the Impact Investing team has developed a risk rating framework and process that helps identify and manage the risk of each PRI and the total PRI portfolio. This framework is coupled with a PRI Investment Policy Statement which outlines a process for how losses in the PRI portfolio will be accounted for. The Impact Investing team reports the risk of the total portfolio to the Investment & Finance Committee of the Board each quarter.

This internal transparency around risk has actually increased The Endowment’s PRI commitment and risk tolerance, as the Chief Financial Officer explains, “When the level of risk is well-defined and understood, it reduces ambiguity. This has led to greater discretion for the Impact Investing team. For example, now only PRIs over \$5MM require approval from the Board.” This, in turn, creates ‘psychological safety’ for the Impact Investing team as they know that the Board and CEO understand the risk profile and have even encouraged the team to increase the number of financial riskier transactions if they will lead to stronger social outcomes.

## QUARTERLY PRI RISK RATING SUMMARY EXAMPLE

Risk Rating	Category	Reserve	Definition	% of portfolio
1	Excellent	1%	Investment scored very high in financial stability and other due diligence criteria. Borrower/investee is performing in line with expectations with no sign of deterioration. Investee/borrower could easily repay the investment.	21.7%
2	Strong	5%	Borrower/Investee is still likely to meet repayment obligations. Loan/Investment is fundamentally sound. Board and management are capable of improving conditions in one or more rating categories and/or strengthening overall performance.	52.2%
3	Satisfactory	10%	Lack of strength in multiple rating categories, and does not have either collateral or reliable guarantor. While current on payment obligations, experiencing declines in performance. Borrower/Investee is likely to meet repayment requirements in most economic scenarios.	21.7%
4	Watch	25%	Deterioration in multiple rating categories requiring more intense scrutiny and staff intervention. Has well defined weaknesses which could cause losses if not addressed. May require restructuring to return to acceptable risk status.	4.3%
5	Unacceptable	Reserved at 100% of expected loss	Expectation is to write-off some amount of principal. Restructuring likely to isolate recoverable amount.	0.0%
				<b>TOTAL</b>
				<b>100%</b>

As of December 31, 2022, 26% (by number, not by dollar amount) of The Endowment's PRIs are currently risk rated between a "3" and "4" on its risk rating scale which represents the "Satisfactory" and "Watch" categories. These PRIs were all originated after the risk rating framework was developed, which now allows staff to originate PRIs with a loss potential of up to 25% or the "4" rating on the scale. In addition, all of these PRIs were approved and originated at these risk levels, and none have moved from a lower risk category to a higher risk category since origination. To date, The Endowment has had only one loan write-off in 2003, long before it established these policies and processes.

This quantification of risk and limited losses has led some staff and Board to wonder if they might indeed need to be taking even greater risks and what more could be done to deconstruct risk and the perception of risk.

"What is the purpose of the PRIs? We don't want to just be a bank. We need to take more risk... We're willing to take a little bit more risk because we know the organization, or we care enough about what they're trying to attain."

— Zac Guevera, Former Board Chair

“We have a culture of naming risk loudly. We highlight the risk, bold it — it is the first thing I say at the board meeting. It takes people who are scared of risk off the ledge by naming it upfront.”

— Amy Chung, Managing Director,  
Impact Investing

## Non-Financial Factors in Mitigating Risk

The Endowment’s due diligence process and risk rating framework considers non-financial factors just as importantly as financial factors in its due diligence process. In its risk rating framework, non-financial factors such as management and Board strength are weighted at 50% while financial factors are weighted at 40%, and potential for financial loss is weighted at 10%.

In practice, this means The Endowment actively considers how financial risk is mitigated through factors such as long-term trust-based relationships, an organization’s prior track record navigating through challenging conditions, and different ways a PRI recipient has “skin in the game” beyond a financial commitment. In addition, through its aligned grantmaking, The Endowment can use grants (beyond just for loan loss) to mitigate critical risks by funding technical assistance, operating support and staffing needs.

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“The relational part of our approach — the relationship — is what mitigates the risk. You get to know the borrower, and your trust allows them to innovate and really push themselves to try and meet the community’s priorities.” — **Janna Mancini**,

**PRI Portfolio Manager**

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The consideration of these non-financial factors is helping The Endowment co-create with partners and increasingly use its PRI capital for credit enhancement and/or to provide longer or more flexible PRIs that better serve community needs. These elements serve as risk mitigants when working with Genesis LA on its Block by Block Program and Community Vision on FreshWorks. These non-financial factors also played a significant role in The Endowment’s ability to move quickly to support the CPCA COVID-19 Response Fund as it knew and understand the joint commitment that the California Primary Care Association (CPCA) and Capital Impact Partners brought to the transaction.

## Culture of Being Explicit About Risk

The Impact Investing team has cultivated a culture around identifying and naming risk. At the team level, this practice is used not as a reason to say no but rather, as part of an early process that then allows the team to consider how it can mitigate for potential risk. In addition, the Impact Investing team brings this culture of naming risk loudly through to all levels of the organization.

## WHAT IT TAKES

Operationalizing an Impact Investing practice with ambitious goals, whether the focus is on advancing racial equity (like The Endowment), addressing climate change, or having an impact in a particular geography, requires a very intentional approach to building an enabling environment for capital within the culture of a grantmaking institution. The Endowment is continuing to learn how to build this environment and grow its Impact Investing work and has identified the follow ingredients as critical to success.

### Aligned Board & Executive Leadership

It is important that the Board and staff are aligned as Impact Investing practices grow and develop. The Endowment's Board plays an important role in encouraging staff to think boldly about the role of PRIs in generating impact, and it marries this ambition with approving and codifying risk tolerance in the PRI program's Investment Policy Statement. This is made possible in part by having a majority BIPOC board that includes more members with community-based backgrounds than those with traditional finance backgrounds, which helps to ensure that programmatic risk is weighted at least as heavily as financial risk. It is undergirded by the Board and leadership's deep trust in the Impact Investing team, which has built the governance, infrastructure, and track record to grow and manage its PRI work.

### Collaborative, Knowledgeable, & Sufficient Staffing

The Endowment has built an experienced and thoughtful Impact Investing team that brings technical expertise, strategic vision, and a learning orientation.

Developing long-term partnerships, building a learning muscle, and understanding broader systems all take much more time than deploying a series of straightforward loan transactions. It requires technically-skilled and learning-oriented staff who are active listeners and collaborators and are open and adept at developing new capital solutions. The collaboration between the CEO Programs team the Impact Investing team has also been critical to breaking down silos between grants and investments, exploring deals, sharing learning, and troubleshooting together.

The Endowment is continuing to evaluate the level of staffing required to make its long-term Impact Investing goals successful, particularly given the emphasis on building and maintaining trust-based relationships with its partners.

"The internal structure of the Impact Investing team facilitates learning. There is a dedicated staff and structure that brings together PRI and CEO Programs' team members to have conversations, share learning, troubleshoot, and explore deals together."

— Annalisa Robles, Senior Program Manager

“It’s a learning journey more than anything. More than a strategy. I think that the lesson here, the thing that we need to write about is that we’re committed to the journey. And that means sometimes we fall and scrape up our knees, but then we can brush them off and try something else.”

— Shawn Ginwright,  
Former Board Chair

## Culture of Learning

The Impact Investing team employs a “learning by doing” approach and believes each member must be the “chief learning officer” for their particular body of work. Over the past few years, the team has made a deeper and more formal commitment to a staff-led learning practice, which more recently has involved the The Endowment’s Board.

They are particularly interested in learning how The Endowment can more deeply commit to racial equity and better align their investments with community priorities. The emphasis on learning has enabled The Endowment to try new approaches with its PRIs and grants, even with elements of uncertainty. It also creates acceptance for mistakes in service of learning, creativity, and innovation.

## Flexibility Across Financial Tools

Having a range of options from grants to very low-interest loans to loan guarantees is essential to being able to adapt to a range of community needs, capacities, and goals. Dedicating a sizable aligned grantmaking pool, currently \$4-6 million annually, as well as exploring larger grant amounts over longer time periods, in recognition that PRIs go well beyond a typical one-to-three-year grant cycle, is also critical. In addition to the access to the capital, it is important to be willing to co-create around the structure of a particular financial instrument and apply it in adaptive, creative, and flexible way to meet community needs.

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“Grants aligned with Impact Investments are so important. Often these sides of the house don’t talk, but The Endowment coordinated conversations with its PRI and grantmaking staff, and they worked in tandem with us to look at ways to integrate capital.” — **Michael Johnson, former Director of Advancement, NDN Collective**

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## Translating Ambition to Operational Practice

Policies and practices need to be developed to operationalize the ambition of this work — from the risk rating framework, PRI approval processes and governance to developing and applying a definition of BIPOC leadership — The Endowment has worked to institutionalize its practices in each aspect of Impact Investing. Moving forward, it intends to develop more systems to consistently capture learning and data to support both its internal real-time learnings as well as to inform the broader field.



# Future Directions

## **To Our Fellow Travelers...**

As we reflect on the last decade and more of The California Endowment's Impact Investing journey, we are filled with excitement and optimism for the future. This period has been one of tremendous growth and learning as we seek to use our investment assets in service of our mission and values.

## **Today, we move forward with a deepened resolve of the importance of using our capital in service of our beloved communities.**

We are deeply engaged as a staff and Board in what it means to be an institutional investor that is driven by our mission and values, and The California Endowment's vision of wellness, inclusion, and shared prosperity. The questions that we asked at the outset of this work remain at the core of charting the future course, along with some new ones: How can we further activate our investment assets towards mission? How should we engage with the impact investing field beyond our investments? How can we help ensure that our work supports more equitable access to capital to those that have been under-served, many of whom are low-income, communities of color?

## **We are clear-eyed about several beliefs that will support us in the journey ahead.**

We believe we can and should do more to activate our investments towards our mission and values and are on that path to understanding what is possible. To that end, we have been exploring how mission-related investments across private equity and venture capital can contribute to more inclusion and prosperity for all.

We have heard from our partners that our support of their racial equity journeys has helped deepen their organizational capacities towards building a world of more inclusive capital. We will continue to be unwavering in our commitment to advancing racial equity as a key social determinant of health.

We know our communities and partners are most proximate to both the problems and opportunities we seek to support. Our partners tell us that the ability to engage in open and frank dialogue with us has been invaluable. To that end, we will work to strengthen our commitment to trust-based investing that goes "beyond the check".

## **Our commitment to building a healthier, more inclusive and prosperous California and nation, will take all of us.**

To the many of you who have been traveling this path with us – our partners, our co-investors, and The Endowment's Board and staff, we are grateful. Our journey is fueled by your enduring commitment to serving those most in need and your unwavering belief that capital can be a tool for change and good. You have been our inspiration, guides and cheerleaders.

## **To the broader Impact Investing community, we look forward to how we will work together.**

We hope that our partnership with all of you, forged in mutual trust and dedication to the communities and people we serve, can be a steadfast foundation to building trust and equity for all.

In Solidarity,



**Amy Chung,  
Managing Director,  
Impact Investing**



# PRI & Grant Partners

[Abode Services](#)

[Accion Opportunity Fund](#)

[African American Alliance of CDFI CEOs](#)

[Asian Health Services](#)

[Axis Community Health](#)

[Burbank Housing Development Corporation](#)

[California FreshWorks](#)

[California Coalition for Rural Housing](#)

[California Finance Consortium](#)

[Capital Impact Partners](#)

[Catalyst of San Diego and Imperial Counties](#)

[Central City Community Health Center](#)

[Central Valley Community Foundation](#)

[Clinica Sierra Vista](#)

[Coachella Valley Housing Coalition](#)

[Community Health Center Capital Fund](#)

[Community Health Centers of the  
Central Coast](#)

[Community Investment Guarantee Pool](#)

[Community Vision Capital & Consulting](#)

[Corporation for Supportive Housing](#)

[CPCA Ventures Loan Fund](#)

[El Sol Science and Arts Academy](#)

[Emerald Cities Collaborative](#)

[Fresno Housing Authority](#)

[Genesis LA Economic Growth Corporation](#)

[Grameen America](#)

[Humboldt Area Foundation](#)

[Kedren Health](#)

[La Maestra Community Health Centers](#)

[LA Prep Properties \(d.b.a Amped Kitchens\)](#)

[LifeLong Medical Care](#)

[Linc Housing](#)

[Lincoln Institute of Land Policy](#)

[LOCUS Impact Investing](#)

[Low Income Investment Fund](#)

[MATCH LLC](#)

[Mission Driven Finance](#)

[Mercy Housing California](#)

[Mission Economic Development Agency](#)

[Mission Investors Exchange, Inc.](#)

[MLK Community Healthcare](#)

[NDN Collective, Inc.](#)

[Nonprofit Finance Fund](#)

[Northgate Markets – City Heights and  
Inglewood](#)

[Número Uno Markets – Los Angeles](#)

[Oakland Community Land Trust](#)

[Resident Owned Communities USA](#)

[Rural Community Assistance Corporation](#)

[RYSE, Inc.](#)

[San Francisco Foundation](#)

[Self-Help Enterprises](#)

[Self-Help Ventures Fund](#)

[South Central Community Health Center](#)

[St. John's Well Child and Family Center, Inc.](#)

[Urban Strategies, Inc.](#)

[Valley Health Team](#)

[Vista Community Clinic](#)

# Credits

**The California Endowment and the authors are extremely grateful** to the investee, grantee, and peer foundation partners who participated in interviews for the report and who serve as ongoing learning and action partners in helping to create an equitable, inclusive, and just community investment ecosystem that prioritizes low-income, BIPOC communities.

## Key Informants

- » Accion Opportunity Fund — John Inglis-Arkell, Vice President, Capital Markets; Eric Trux, Treasurer; and Veronica Figoli, Vice President, Institutional Partnerships
- » African American Alliance of CDFI CEOs — Lenwood V. Long Sr., President & CEO
- » Capital Impact Partners — Kelly Bougere, Director
- » Community Investment Guarantee Pool — Jim Baek, Executive Director
- » Community Vision — Catherine Howard, President & CEO
- » Genesis LA — Tom De Simone, President & CEO
- » Kresge Foundation — Aaron Seybert, Managing Director, Social Investment Practice
- » Linc Housing — Rebecca Clark, CEO & Suny Lay Chang, President & COO
- » Mercy Housing — Doug Shoemaker, President & Melissa Garcia, Land Fund Director
- » Mission Driven Finance — David Lynn, Co-Founder & CEO
- » NDN Collective — Michael Johnson, Director of Advancement (former)
- » Self-Help Federal Credit Union — Steve Zuckerman, President
- » Southern CA Grantmakers — Phuong Pham, Vice President, Knowledge & Communications
- » Weingart Foundation — Rosa Benitez, Director of Program Investments

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## Board and Committee Members Interviewees

- » Kurt Chilcott, Board Chair
- » Leslie B. Kautz, CFA, Investment & Finance Committee Chair
- » Bert Feuss, MRI Investment Committee
- » Zac Guevera, Board Chair (former)
- » Shawn Ginwright, Board Chair (former)

## Staff Leadership Interviewees

- » Robert K. Ross, M.D., President & Chief Executive Officer
- » Dan DeLeon, Chief Financial Officer
- » Marion Standish, Senior Vice-President (former)
- » Amy Chung, Managing Director, Impact Investing
- » Judi Larsen, Managing Director, CEO Programs Office
- » Christine Ryan, Investment Officer, Program-Related Investments (former)
- » Janna Mancini, Portfolio Manager, Program-Related Investments
- » Danny Chan, Investment Officer, Mission-Related Investments
- » Annalisa Robles, Senior Program Manager, CEO Programs Office



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