The Next 75

2022-2026 Strategic Plan

Deepening our commitment to Colorado
Gates Family Foundation

2022-2026 Strategic Plan: Impact Investments

Monday, Mar. 14
12 to 1 p.m.

AGENDA

Welcome
• Webinar overview and objectives

Presentation
• Gates Family Foundation Background
  • Mission, Vision, Values
• Strategic Plan Overview
  • Community feedback / development process
• Impact Investing Program
  • Tools, Strategies and Examples

Discussion
• Questions from attendees

Closing
• Next steps and future engagement
Building on 75 years of addressing some of Colorado’s toughest challenges

➢ Celebrating 75 years of impact
➢ More than $456 million in grants since founding
➢ Continuously evolving while maintaining intense focus on people, communities, and natural resources of Colorado.
Strategic Plan Process: Throughout 2021

LOOKING BACK
Internal Reflection & Assessment

LOOKING AHEAD
Trends, Challenges & Forecasting

REACHING OUT
Community Feedback
MISSION
We work with partners and communities to build a more equitable, resilient, and sustainable Colorado for all.

VISION
A vibrant and verdant Colorado where all people and communities thrive.
Gates Family Foundation Values

RESPECT  CREATIVITY  ENGAGEMENT  PLACE  EQUITY
Commitment to Equity

We prioritize individuals and communities that have been historically marginalized by addressing systemic barriers and creating pathways to opportunity.
Foundation Approach

- We use both financial and non-financial tools to serve partners and advance core strategies
- Our staff serve as connectors, resources and thought partners in the ecosystems where they work
- We intentionally convene and participate in multi-partner, systems-level work to drive innovative solutions
- We actively seek to collaborate with an even more diverse array of stakeholders and potential partners
2021 Total Philanthropic Activity: $44.5M

- **31%** Family Fund Grants $13,741,927
- **28%** FirstBank PPP Loan Facility $12,500,000
- **21%** GFF Grants $9,271,273
- **8%** MRIs $3,438,531
- **6%** PRIs $2,893,092
- **6%** Staff and Admin $2,683,765
- **>1%** Hover Building $4,759
2021 Strategic Grants Paid: $5,699,000

39% Natural Resources $2,232,000
39% Education $2,209,500
15% Community Development $882,500
7% Informed Communities $375,000
2021 Responsive Grants Paid: $3,572,273

- **Community Development**: 29% ($1,030,000)
- **Education**: 26% ($925,000)
- **Art and Culture**: 16% ($565,000)
- **Well-being of Children, Youth and Families**: 15% ($535,000)
- **Natural Resources, Parks & Recreation**: 12% ($437,273)
- **Other**: 2% ($80,000)
What’s New

- Foundation-wide focus on addressing climate change and advancing diversity, equity and inclusion across all programs
- Education increases focus on rural education (developing teacher talent, climate change education) and out-of-system learning innovations
- Natural Resources expands focus on forest health and watershed restoration
- Community Development topics (mobility, food systems, placemaking, community planning) encompassed within new focus on economic mobility and place-based community asset-building, with a particular focus on affordable housing
- Informed Communities formally becomes a fourth program area
- Increased focus on leadership development and capital project planning support for leaders and communities of color, and others needing early-stage support
- Increased percentage of Foundation assets dedicated toward impact investments
<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITABLE EDUCATION</td>
<td>23%</td>
<td>Innovative Learning Environments, Innovations in School Systems, Conditions for Sustained Innovation</td>
</tr>
<tr>
<td>NATURAL RESOURCES</td>
<td>23%</td>
<td>Balanced Water Management, Forest Health &amp; Watershed Restoration, Landscape Conservation &amp; Land Trust Capacity</td>
</tr>
<tr>
<td>COMMUNITY DEVELOPMENT</td>
<td>12%</td>
<td>Economic Mobility for Individuals and Families, Equitable Community Assets</td>
</tr>
<tr>
<td>INFORMED COMMUNITIES</td>
<td>5%</td>
<td>Stronger Civic News Ecosystem, Coverage in Gates' Core Focus Areas, Inclusive News Leadership, Voices &amp; Models</td>
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<tr>
<td>CAPITAL GRANTS</td>
<td>37%</td>
<td>Amplify Needs and Goals for Capital Projects, Leadership and Capital Planning Support for Diverse Leaders</td>
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Impact Investing: Our Goals

1. Increase our impact - the other 95%
2. Utilize all of the tools available to add value
3. Be responsible stewards of core assets, for perpetual benefit to Coloradans
4. Continue to increase the percentage of core assets committed to mission-relevant and/or socially beneficial uses – as much as the market allows
Impact Investments: Four Tools

The umbrella of impact investing leverages tools that integrate financial and social objectives:

1. Program-related investments (PRIs)
2. Mission-related investments (MRIs)
3. Sustainable and responsible investing (SRIs)
4. Sustainable and responsible operations (SROs)
<table>
<thead>
<tr>
<th>Name</th>
<th>Type of Investment</th>
<th>Returns</th>
<th>Charitable Distribution</th>
<th>Program Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program-Related Investments (PRI)</td>
<td>Debt, Fixed Income, Guarantees, and Private Equity</td>
<td>Below-market rates of return</td>
<td>Yes, over and above the 5% required payout</td>
<td>Highly mission-aligned</td>
</tr>
<tr>
<td>Mission-Related Investments (MRI)</td>
<td>Largely private equity and other direct investments</td>
<td>Risk-adjusted market rates of return</td>
<td>No</td>
<td>Closely mission-aligned</td>
</tr>
<tr>
<td>Sustainable/Responsible Investing (SRI)</td>
<td>Largely public equity investments with positive or negative screens, carbon exposure, or ESG factors considered</td>
<td>Risk-adjusted market rates of return</td>
<td>No</td>
<td>Mission and values-aligned</td>
</tr>
<tr>
<td>Sustainable/Responsible Operations (SRO)</td>
<td>GFF policies, vendors and expenses</td>
<td>N/A</td>
<td>Yes, charitable admin expenses are part of the 5% required payout</td>
<td>Mission and values-aligned</td>
</tr>
</tbody>
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Strategy Development: Our Process

- Five-year lookback analysis
- Diversity, equity and inclusion (DEI) metrics for impact investments
- Deep dive into PRIs – History, Impact Summary, Stakeholder Feedback, and Opportunity Costs Analysis
- Impact Investing Landscape Analysis and strategic questions
- MRI/SRI deep dive
- Strategic discussion on recommendations for next five years
Our Approach to Program-Related Investments

- **All Colorado-focused** investments, highly-aligned with strategic focus areas
- **PRIs are intended to be over and above 5% grant payout** meant to complement and not reduce grant program
- Deployed **PRI capital is capped** to limit impact on the returns of the endowment assets over time
- **Accepts below market-rate returns** between 0-3% on average
- **Patient capital** with terms between 2-10 years
- Uses a **range of financial tools** – debt, private equity, fixed income, guarantees
- **Scale of PRIs** range from $250,000 up to $5 million. Most are between $500,000 and $1 million
- Accepts risk but with a **capital preservation strategy**. Risk mitigation strategies include:
  - Limit direct investments
  - Partner with experts
  - Pooled funds that share risk
  - Release capital in installments contingent on performance
Program-Related Investments: What's New?

- **Increased the Program-Related Investment cap** on deployed capital from 5% to 6% of main Foundation assets.
- **Increase the annual charitable (grant) distribution** payout calculation from the required 5% to **5.125%**.
- Increased capacity to commit to **non-cash guarantees** for loans made to program-aligned organizations and projects *(example: Colorado Community Media)*.
- Openness to use the Foundation's **strong balance sheet to borrow money** when unique opportunities arise *(example: PPP loan program for small businesses, via CDFIs)*.
Program-Related Investments: Examples

**EDUCATION:** Colorado Charter Facility Solutions

**NATURAL RESOURCES:** Clean Energy Credit Union, Palmer Land Trust

**COMMUNITY DEVELOPMENT:** Transit-Oriented Development Fund, First Southwest Community Fund

**INFORMED COMMUNITIES:** The Colorado Sun, National Trust for Local News/Colorado News Conservancy
Our Approach to Mission-Related Investments

- **Align with core Foundation interests** – K-12 education, natural resources, and vibrant communities
- **Colorado relevance is a plus**, but not required to be considered mission-aligned
- Mission-related investments are **not meant to be concessionary**
- **Prioritize private equity** funds and other kinds of direct investments, rather than ownership of one publicly traded stock over another
- **Smaller in size ($500,000-$4,000,000)** than other private equity investments
- **Seeking out more diverse fund managers**
- Willingness to invest in **less-proven investment theses** to reach for more mission-relevant options
- **Aligns with the investment policy statement** of the Foundation and enhances the diversification of the Foundation's investments
- **Source and diligence are conducted largely in-house** utilizing the expertise of both finance and program staff
- There are times when staff are not equipped to diligence an investment opportunity and **seek outside counsel to support**
Mission-Related and Sustainable/Responsible Investments: What's New?

**Mission-Related Investments**
- Increasing the cap up to 30% of the private equity portfolio (currently we're at about 10%)

**Sustainable/Responsible Investments and Operations**
- Exploring ways to move the Foundation's endowment toward net-zero carbon emissions
- Tracking and improving DEI impact metrics, particularly in the MRI portfolio
- Monitoring the portfolio's environmental, social and governance (ESG) metrics
- Continuing to look for sustainable/responsible vendors and operational policies -- approximately $3 million annually
Mission-Related Investments: Examples

**EDUCATION:** Reach Capital, Owl Ventures (ed tech)

**NATURAL RESOURCES:** Lyme Timber (land), Encourage Capital (water), Blackhorn Ventures (low-carbon technology)

**COMMUNITY DEVELOPMENT:** Rose Affordable Housing Preservation Fund, Greater Colorado Venture Fund

**INFORMED COMMUNITIES:** None yet

**MULTI-SECTOR:** Avesta (BIPOC founders, investment in BIPOC-led businesses addressing climate change or economic mobility)
Impact Investments: Process

Outreach to Gates Staff

- Eager to hear about evolving opportunities & ways to collaborate
- Contact program staff (by Focus Area) for PRIs, Impact Investing Team for MRIs
- Send an email
- Submit an inquiry via online form
- Call to introduce your organization or talk through your idea

Define the Opportunity & Gates Due Diligence

- Back and forth process; may take 2-6 months
- Define investment goals and risk, terms and milestones, impact indicators
- Rolling deadlines (Feb., April, July, Oct.); time-sensitive proposals may be fast-tracked

Gates Board Decision & Investment Agreement

- Decisions at meetings in April, June, September, December
- Notification, agreements created/signed, funds released according to terms
- Ongoing communication w/Gates staff
- Interim and final reports
Questions From The Community

☐ Will changes in your program strategy influence what you're investing in via PRIs and MRIs?

☐ Additional questions?
What’s Next?
Open Opportunities

- Our next deadlines to apply for a capital grant are March 15 (tomorrow!) and September 15.

- We're searching for a new Program Officer for Natural Resources; apply by April 4.

- We'll soon post an open position in our Education program.
Contacts

- PROGRAM OFFICER OUTREACH AS WELL AS:
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Thank You

Let's keep the community conversation going.
With your help we amplify our impact.