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Impact Investing and Social Enterprise: New Developments, Challenges, and Opportunities for Nonprofits

Tuesday, September 12, 2017, 12:30 pm – 2:00 pm ET

Venable LLP, Washington, DC

Moderator

Jeffrey S. Tenenbaum, Esq.

Partner and Chair of the Nonprofit Organizations Practice,
Venable LLP

Speakers

Kamil Cook

Associate General Counsel, Corporate Services,
The Nature Conservancy

Javeed Froozan

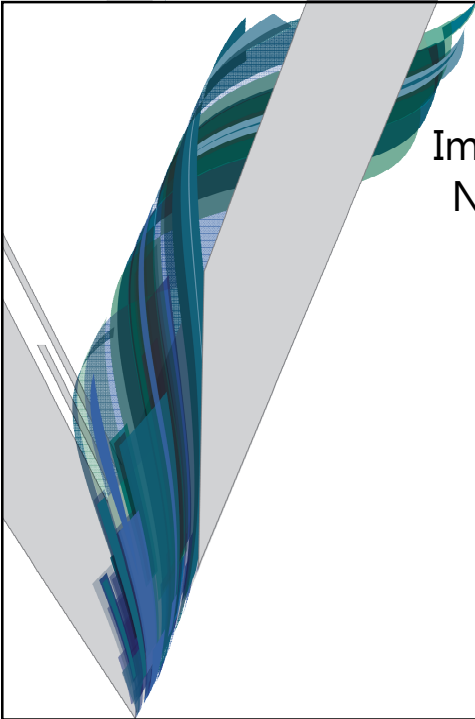
Vice President, Research Business Development & Strategic
Alliances, The Leukemia & Lymphoma Society

Tracy Kartye

Director, Social Investments, The Annie E. Casey Foundation



Presentation



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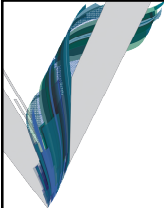
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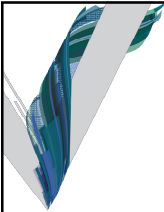
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Upcoming Venable Nonprofit Events

Register Now

- **October 4, 2017:** [The Top Ten Tips for Nonprofits to Consider When They Procure Technology Solutions](#)
- **November 15, 2017:** [Key Safety and Security \(both Physical and Financial\) Risk Management Strategies for U.S.-Based Nonprofits Operating Overseas](#)
- **December 5, 2017:** [Performance Management: Getting the Best Out of Your Nonprofit's Workforce](#)
- **January 18, 2018:** The Top Privacy and Data Security Trends and Issues for Nonprofits in 2018 *(details and registration available soon)*
- **February 15, 2018:** Nonprofit Mergers, Alliances, and Joint Ventures: Options, Best Practices, and Practical Tips *(details and registration available soon)*



The Nature Conservancy: Investing in Conservation

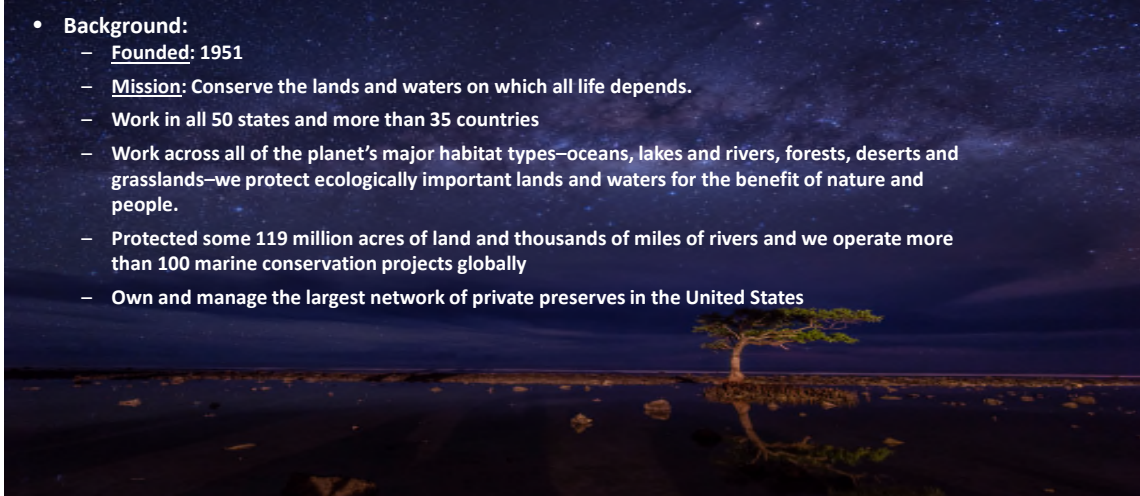
Kamil Cook, Associate General Counsel, The Nature Conservancy

September 2017

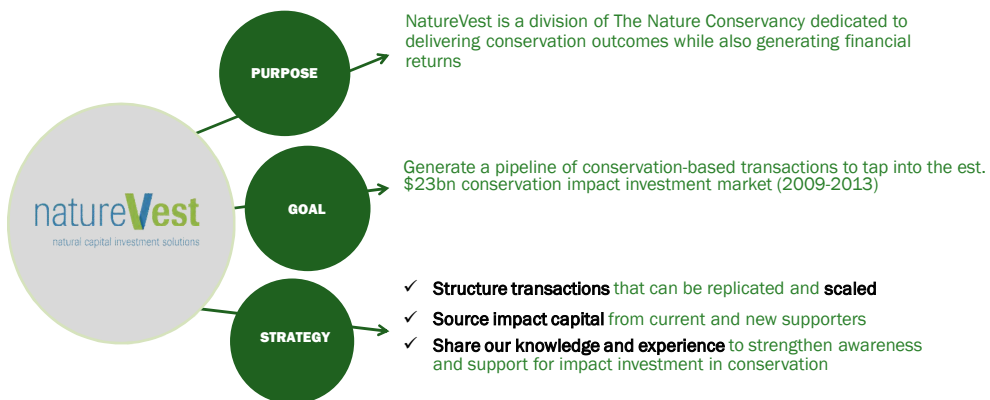
The Nature Conservancy: History and Mission

- **Background:**

- **Founded:** 1951
- **Mission:** Conserve the lands and waters on which all life depends.
- Work in all 50 states and more than 35 countries
- Work across all of the planet's major habitat types—oceans, lakes and rivers, forests, deserts and grasslands—we protect ecologically important lands and waters for the benefit of nature and people.
- Protected some 119 million acres of land and thousands of miles of rivers and we operate more than 100 marine conservation projects globally
- Own and manage the largest network of private preserves in the United States



Impact Investment and Conservation





Impact Investing at the Conservancy: Mapping to Global Strategies



Soil Health Technologies
Water Sustainability
Green Infrastructure
Debt Restructuring for Conservation
Sustainable Agriculture
Fisheries Reform



Impact Investing Strategies and Issues

Impact Investment Tools

- Conservancy loans and equity investments in conservation businesses (PRIs)
- Source capital from third-party investors to finance conservation projects
- Provide acceleration grants as seed funding for small businesses
- Manage conservation investment funds
- Developing conservation businesses
- Managing conservation businesses
- Marketing financial interests in conservation businesses

Key Legal Issues

- Securities compliance – in the U.S. and abroad
 - Securities Offering Regulation (federal Securities Act of 1933)
 - Investment Advisory Activity (federal Investment Advisers Act of 1940 and state advisory laws)
 - Marketing Securities (Broker-Dealer compliance)
- Tax considerations – Joint venture risk; private benefit; UBIT
 - Governance/Control of conservation businesses to ensure conservation mission
 - Conflicts of interest (co-investing with potential “insiders”, insider trading)

Water Funds: Financial, Environmental and Social Returns in Balance



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The Challenge and the Place

- Globally significant river basin
- Heavily engineered with dams, levees, and other infrastructure
- Efficient water capture
- Boom, Bust Ecological cycle due to over-use
- The Solution – Conservation Impact Investment Fund
 - ❖ TNC co-develops fund/anchor investor
 - ❖ Raise equity from for-profit investors to purchase water entitlements
 - ❖ Deploy portion of capital for environmental watering to promote ecological diversity and long-term sustainability of river system
 - ❖ Remaining water generates investor returns



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Water Funds

- **Why a water fund?** Leverage developed water markets to achieve financial, environmental and social outcomes.
- **Fund Offering:** Wholesale investors
- **Investment Product:** Equity interests in open-end unit trust
- **Portfolio:** Water entitlements and allocations; Real Assets
- **Investment Strategy:** Capital appreciation from portfolio of permanent water rights; Sale and lease of temporary water rights
- **Social and Environmental Impact Outcomes**
 - Donates a percentage of water assets to conduct environmental watering; higher donations when water is abundant (cheap) and lower when water is scarce (expensive)
 - Secures flows to vital wetlands in the basin
 - Restores important migratory bird, fish and frog habitat
 - Restores important indigenous cultural lands



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Water Fund: Conservancy Roles, Opportunities and Challenges

Conservancy Roles

- Anchor equity investor
- Fund sponsor, developer – collaborated with third-party investment manager to develop fund structure and investment strategy
- Marketing interests in fund
- Ongoing oversight of environmental and social outcomes



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Water Fund: Conservancy Roles, Opportunities and Challenges (con't)

Pros, Opportunities

- Accelerate environmental watering activities through scale
- Collaborate with best-in-class water investment manager
- Expand Conservancy learning about effective water markets (potential application in the U.S. and other markets)
- Expand network of conservation supporters
- Catalyze similar initiatives in other markets

Challenges

- Costs – preparing offering materials, fees to service providers, negotiation with key investors, creditors, diverse service providers with differing objectives
- Liability/Reputational management – securities offering, marketing
- Governance/Control – finding the right balance
- Balancing diverse constituents – conservation outcomes, political sensitivities, commercial expectations
- Responding to Changing market conditions – timeliness of decision-making, ability to nimbly respond to developments with partners
- Regulatory framework for investment funds, taxation

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LLS Research

Impact Investing and Social Enterprise:
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September 12, 2017

someday is today

 LEUKEMIA &
LYMPHOMA
SOCIETY®
fighting blood cancers

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LLS' Mission Is to Cure Leukemia, Lymphoma, Hodgkin's Disease and Myeloma and Improve the Quality of Life of Patients and Their Families



More than \$1 billion invested in research



Unparalleled patient support services



Advocating to accelerate cures

LLS had a role in many of 25+ FDA approved blood cancer therapeutics since 2001 including therapies approved or pending approval in 2017

LLS Research Is Focused on Developing Therapies to Positively Impact Care for Blood Cancer Patients

Research Grant Programs

Therapy Acceleration Program®

Beat AML Initiative

Patient Education, Access and Advocacy



Patient-focused, not-for-profit biopharma model

LLS raises >\$250 Million per year and funds \$60-\$80 Million per year of research



LLS Research Academic Grants Advances Blood Cancer Understanding and Leads to FDA Successes

LLS Academic Grant Programs

Specialized Center of Research (SCOR) – collaboration
 Translational Research (TRP) – “bench-to-bedside”
 Career Development (CDP) – “training award”
 RTFCCR/LLS – patient-focused immunotherapy
 New Idea Award (NIA) – “novel idea, concept”
 Screen to Lead (SLP) – “finding leads”
 Quest for CURES (QFC) – RFP-driven awards
 Transforming Cures Initiative (TCI) – early disease
 Other Partnerships – IWMF, MPNRF, Falk, and more

Recent FDA-Approved Products:

Venclexta (Abbvie/Genentech-WEHI) 2016
 Kymriah (Novartis-Penn) 2017



Beat AML Master Trial — Groundbreaking LLS Initiative with FDA, Companies, CROs, and Investigators

LLS holds the FDA IND

Multiple companies are participating

Test the effectiveness of investigational drug combinations on mutations that drive AML.

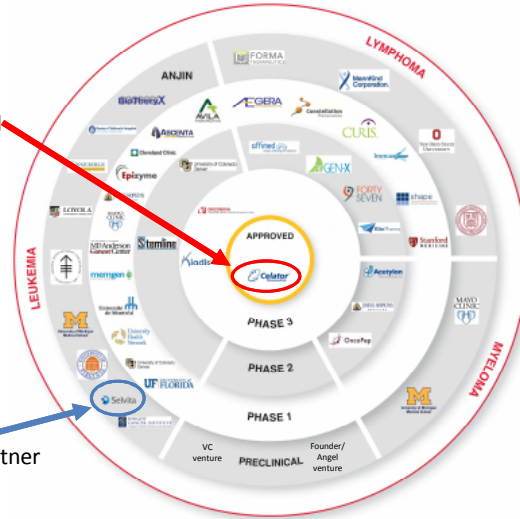
Patients will be newly diagnosed, aged 60+

After genomic analysis of their cancer cells, patients will be assigned to trial arms

 CLINICAL SITE	 CLINICAL SITE	 CLINICAL SITE	 CLINICAL SITE
 CLINICAL SITE	 LEUKEMIA & LYMPHOMA SOCIETY fighting blood cancers		 REGULATORY AGENCY
 PHARMACEUTICAL COMPANY			 GENOMICS PROVIDER
 PHARMACEUTICAL COMPANY	 PHARMACEUTICAL COMPANY	 ONCOLOGY	 PHARMACEUTICAL COMPANY
 WEAVER'S DIGITAL PROTOCOL SOLUTION	 CLINICAL TRIAL KNOWLEDGE PLATFORM	 CLINICAL RESEARCH ORGANIZATION	

Therapy Acceleration Program (TAP) >\$100M and ~50 Partnerships Since 2007

First FDA approval funded by TAP



Newest TAP partner
August 8, 2017

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<http://www.lls.org/therapy-acceleration-program>

Celator acquired by Jazz Pharmaceuticals in 2016

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Why Companies and Institutions Use LLS TAP

Focused on clinical proof-of-concept

- Accelerates first-in-class therapeutics
- Overcomes barriers in rare diseases/small markets
- Funds ideas that would not have been prioritized
- Provides developers with access to LLS resources to design better clinical development plans access expert researchers/centers, recruit patients, educate professionals, and patients

Funding may generate financial returns to LLS to fund future research

- Product-focused collaboration agreement returns to LLS via late-stage milestones and royalties
- Equity, rights to equity and other consideration, and targeted funding (angel/bridge model)

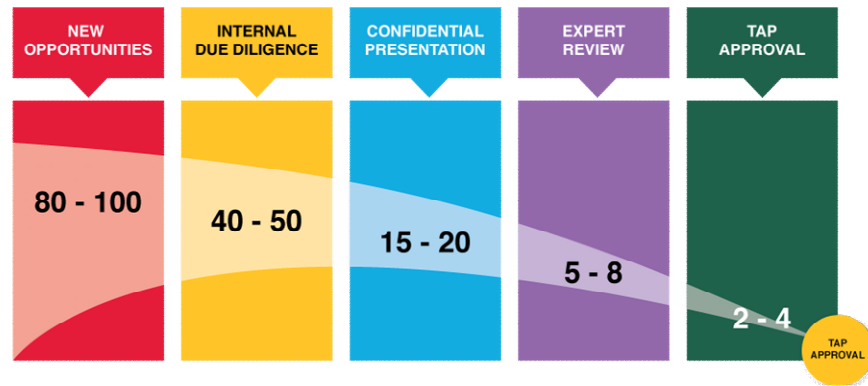
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Focus on First-in-Class Opportunities Using a Stage-Gate Process Leads to TAP Committee Approval and Funding

TAP New Opportunities Diligence Funnel



LLS Research Activities to Prepare for Future Growth

Setting up a legal entity to place TAP funding agreements, notes, and equity assets to better manage risks, increase transparency, and flexibility.

- Grant agreement returns and equity consideration to be segregated.
- Evaluating mission-focused, single-project newcos to develop specific technologies and attract risk capital to set up for future growth of projects.

Holding off on setting up a venture fund bringing in outside capital.

- Evaluating impact on mission and philosophy.
- Infrastructure, controls, and regulatory compliance hurdles related to SEC, FINRA, and other regulatory entities.

Expanding legal and business support to improve diligence and timing to complete transactions, manage alliances, and improve compliance.

- Upgrading and standardizing research agreements to align incentives.
- Better utilizing tracking, reporting, and compliance tools.



someday is today

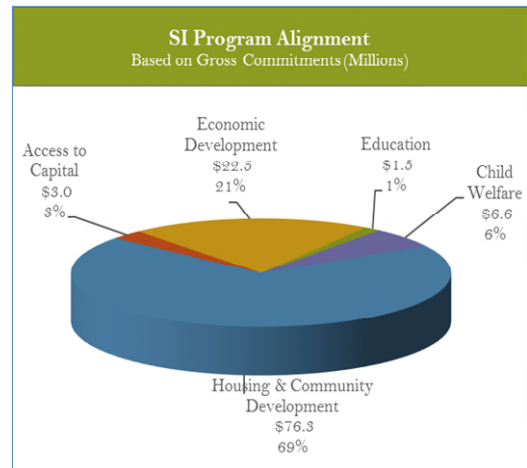


Annie E. Casey Foundation

- Established in 1948 by Founder of UPS, Jim Casey
- Mission is to build brighter futures for all children in the US
 - Strengthen families, build stronger communities and ensure access to opportunity
 - Advance research and solutions to overcome barriers to success
 - Help communities demonstrate what works and influence decision makers to invest in evidence based strategies
- Social (impact) investments as a philanthropic tool
 - Complements grantmaking

More Resources for Casey's Mission

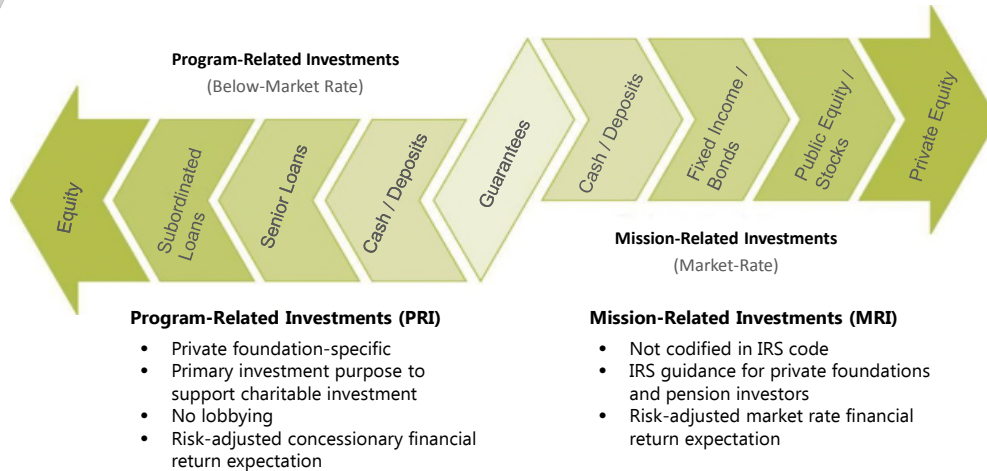
- Target endowment allocation of 4%
 - Specific mission-aligned social returns
 - Expect investments to return capital with some financial gain
 - Flexible investment structures across asset classes
- Firmly established program
 - 15-year track record
 - \$161M invested
 - Leveraged \$1.5B
 - 1.4% financial return
 - Solid collaboration with program staff
 - Comprehensive systems and processes
 - Significant flexibility



\$77.4B in Impact Assets and Growing

- Impact investing defined
 - Investing with intention – positive social and/or environmental impact
 - Financial return expectations
 - Spans asset classes
- Who is making impact investments:
 - Private foundations
 - Fund managers
 - Development finance institutions
 - Diversified financial institutions/banks
 - Pension funds and insurance companies
 - Family offices
 - Individual investors
 - Public charities/nonprofits, religious institutions

Impact Investing Asset Class Continuum



New Frontiers in Mission-Related Investing, F.B. Heron Foundation, 2004

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Motivation Drives Strategy

- Rationale's can be dramatically different from organization to organization
 - Create a market – proof of concept
 - Establish a social enterprise
 - Leverage more capital via de-risking
 - Evolve grantor-grantee relationships
- Organizational considerations
 - Mission
 - Investment philosophy: impact first, drive financial returns, combination
 - Risk tolerance
 - Financial return expectations

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Investor Expectations

- Pre-Investment
 - Credible revenue and business model
 - Management and capacity matched to vision
 - Workable legal and policy context
 - Sufficient knowledge, partners and opportunity
 - Potential for sector development/significant impact
 - Thoughtful plan, clear agreements, measures and capacity of investor and investee
- Investment
 - Establish acceptable levels of risk and risk mitigants
 - Unconventional terms
 - High transaction costs
- Post-Investment
 - Ongoing financial and impact reporting



Flexible Investment Structures Support Impact Objectives

Investment Type	Purpose of Capital	Example Investments
PRI - Subordinated Loan	Real Estate	Pre-development and acquisition loans for permanent supportive and affordable housing
PRI - Senior Loan	Micro/Small Business Lending	Fund small dollar loans to entrepreneurs unable to access mainstream capital
PRI - Guarantee	Real Estate	Leverage \$40M loan pool for acquisition/re-fi rehab and home improvement loans
MRI - Private Equity	Working Capital	Triple bottom line fund targeting sustainable growing businesses

PRI Loan: Coastal Enterprises, Inc.

Mission: Help create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential

Investment

- \$2M 10-year loan at 3%
- \$13M regionally targeted fund

Results

- Invested \$27M total
- 165 small and micro business loans
- 206 housing units; 197 affordable
- Created/maintained almost 4,000 jobs



MRI Private Equity: SJF Ventures Fund III

SJF Ventures invests in high-growth companies creating a healthier, smarter and cleaner future. Our mission is to catalyze the development of highly successful businesses driving lasting, positive changes.

Investment

- \$2M 10-year investment
- Market-rate return
- \$90M fund

Results

- Fully invested
- GIIRS rated
- 695 jobs created
- 44% of companies located in LMI communities





Questions?

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Speaker Biographies



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AREAS OF PRACTICE

Tax and Wealth Planning
 Antitrust
 Political Law
 Tax Controversies and Litigation
 Tax Policy
 Tax-Exempt Organizations
 Regulatory

INDUSTRIES

Nonprofit Organizations

GOVERNMENT EXPERIENCE

Legislative Aide, United States House of Representatives

BAR ADMISSIONS

District of Columbia

EDUCATION

J.D., Catholic University of America, Columbus School of Law, 1996

B.A., Political Science, University of Pennsylvania, 1990

MEMBERSHIPS

Jeffrey Tenenbaum chairs Venable's Nonprofit Organizations Practice Group. He is one of the nation's leading nonprofit attorneys, and also is a highly accomplished author, lecturer, and commentator on nonprofit legal matters. Based in the firm's Washington, DC office, Mr. Tenenbaum counsels his clients on the broad array of legal issues affecting charities, foundations, trade and professional associations, think tanks, advocacy groups, and other nonprofit organizations, and regularly represents clients before Congress, federal and state regulatory agencies, and in connection with governmental investigations, enforcement actions, litigation, and in dealing with the media. He also has served as an expert witness in several court cases on nonprofit legal issues.

Mr. Tenenbaum was the 2006 recipient of the American Bar Association's Outstanding Nonprofit Lawyer of the Year Award, and was an inaugural (2004) recipient of the *Washington Business Journal's* Top Washington Lawyers Award. He was only a handful of "Leading Lawyers" in the Not-for-Profit category in the prestigious *Legal 500* rankings for the last six years (2012-17). Mr. Tenenbaum was recognized in 2013 as a Top Rated Lawyer in Tax Law by *The American Lawyer* and *Corporate Counsel*. He was the 2015 recipient of the New York Society of Association Executives' Outstanding Associate Member Award, the 2004 recipient of The Center for Association Leadership's Chairman's Award, and the 1997 recipient of the Greater Washington Society of Association Executives' Chairman's Award. Mr. Tenenbaum was listed in the 2012-18 editions of *The Best Lawyers in America* for Non-Profit/Charities Law, and was selected for inclusion in the 2014-17 editions of *Washington DC Super Lawyers* in the Nonprofit Organizations category. In 2011, he was named as one of Washington, DC's "Legal Elite" by *SmartCEO Magazine*. He was a 2008-09 Fellow of the Bar Association of the District of Columbia and is AV Peer-Review Rated by *Martindale-Hubbell*. Mr. Tenenbaum started his career in the nonprofit community by serving as Legal Section manager at the American Society of Association Executives, following several years working on Capitol Hill as a legislative assistant.

ACTIVITIES

Mr. Tenenbaum is an active participant in the nonprofit community who currently serves on the Editorial Board of *The NonProfit Times*, on the Advisory Panel of Wiley/Jossey-Bass' *Nonprofit Business Advisor* newsletter, and on the American Society of Association Executives' Public Policy Committee. He previously served as Chairman and as a member of the ASAE *Association Law & Policy* Editorial Advisory Board and has served on the ASAE Legal Section Council, the ASAE Association Management Company Accreditation Commission, the GWSAE Foundation Board of Trustees, the GWSAE Government and Public Affairs Advisory Council, the Federal City Club Foundation Board of Directors, and the Editorial Advisory Board of Aspen's *Nonprofit Tax & Financial Strategies* newsletter.

REPRESENTATIVE CLIENTS

AARP
Academy of Television Arts & Sciences
Air Conditioning Contractors of America
Air Force Association
Airlines for America
American Academy of Physician Assistants
American Alliance of Museums
American Association for Marriage and Family Therapy
American Association for the Advancement of Science
American Bar Association
American Cancer Society
American College of Cardiology
American College of Radiology
American Council of Education
American Institute of Architects
American Nurses Association
American Red Cross
American Society for Microbiology
American Society of Anesthesiologists
American Society of Association Executives
American Thyroid Association
America's Health Insurance Plans
Anti-Defamation League
Association for Healthcare Philanthropy
Association for Talent Development
Association of Clinical Research Professionals
Association of Corporate Counsel
Association of Fundraising Professionals
Association of Global Automakers
Auto Care Association
Better Business Bureau Institute for Marketplace Trust
Biotechnology Innovation Organization
Brookings Institution
Carbon War Room
Career Education Colleges and Universities
Catholic Relief Services
CFA Institute
The College Board
CompTIA
Council on Foundations
CropLife America
Cruise Lines International Association
Cystic Fibrosis Foundation
Democratic Attorneys General Association
Dempsey Centers for Quality Cancer Care
Design-Build Institute of America
Entertainment Industry Foundation
Entertainment Software Association
Environmental Working Group
Erin Brockovich Foundation
Ethics Resource Center
Foundation for the Malcolm Baldrige National Quality Award
Gerontological Society of America
Global Impact
Good360
Goodwill Industries International
Graduate Management Admission Council
Homeownership Preservation Foundation
Human Rights Campaign
Independent Insurance Agents and Brokers of America
InsideNGO
Institute of Management Accountants
International Association of Fire Chiefs
International Rescue Committee

International Sleep Products Association
Investment Company Institute
Jazz at Lincoln Center
Laughing Man Foundation
LeadingAge
The Leukemia & Lymphoma Society
Lincoln Center for the Performing Arts
Lions Club International
March of Dimes
ment'or BKB Foundation
National Air Traffic Controllers Association
National Association for the Education of Young Children
National Association of Chain Drug Stores
National Association of College and University Attorneys
National Association of College Auxiliary Services
National Association of County and City Health Officials
National Association of Manufacturers
National Association of Music Merchants
National Athletic Trainers' Association
National Board of Medical Examiners
National Coalition for Cancer Survivorship
National Coffee Association
National Council of Architectural Registration Boards
National Council of La Raza
National Fallen Firefighters Foundation
National Fish and Wildlife Foundation
National Propane Gas Association
National Quality Forum
National Retail Federation
National Student Clearinghouse
The Nature Conservancy
NeighborWorks America
New Venture Fund
North Pacific Research Board
NTCA - The Rural Broadband Association
Nuclear Energy Institute
Pact
Patient-Centered Outcomes Research Institute
Peterson Institute for International Economics
Professional Liability Underwriting Society
Project Management Institute
Public Health Accreditation Board
Public Relations Society of America
Romance Writers of America
Telecommunications Industry Association
The Tyra Banks TZONE Foundation
U.S. Chamber of Commerce
United States Tennis Association
Volunteers of America
Water Environment Federation
Water For People
WestEd
Whitman-Walker Health

HONORS

Recipient, New York Society of Association Executives' Outstanding Associate Member Award, 2015

Recognized as "Leading Lawyer" in *Legal 500*, Not-For-Profit, 2012-17

Listed in *The Best Lawyers in America* for Non-Profit/Charities Law (Woodward/White, Inc.), 2012-18

Selected for inclusion in *Washington DC Super Lawyers*, Nonprofit Organizations, 2014-17

Served as member of the selection panel for the *CEO Update* Association Leadership Awards, 2014-16

Recognized as a Top Rated Lawyer in Taxation Law in *The American Lawyer* and *Corporate Counsel*, 2013

Washington DC's Legal Elite, *SmartCEO Magazine*, 2011

Fellow, Bar Association of the District of Columbia, 2008-09

Recipient, American Bar Association Outstanding Nonprofit Lawyer of the Year Award, 2006

Recipient, *Washington Business Journal* Top Washington Lawyers Award, 2004

Recipient, The Center for Association Leadership Chairman's Award, 2004

Recipient, Greater Washington Society of Association Executives Chairman's Award, 1997

Legal Section Manager / Government Affairs Issues Analyst, American Society of Association Executives, 1993-95

AV® Peer-Review Rated by *Martindale-Hubbell*

Listed in *Who's Who in American Law* and *Who's Who in America*, 2005-present editions

PUBLICATIONS

Mr. Tenenbaum is the author of the book, *Association Tax Compliance Guide*, now in its second edition, published by the American Society of Association Executives. He also is a contributor to numerous ASAE books, including *Professional Practices in Association Management*, *Association Law Compendium*, *The Power of Partnership*, *Essentials of the Profession Learning System*, *Generating and Managing Nondues Revenue in Associations*, and several Information Background Kits. In addition, he is a contributor to *Exposed: A Legal Field Guide for Nonprofit Executives*, published by the Nonprofit Risk Management Center. Mr. Tenenbaum is a frequent author on nonprofit legal topics, having written or co-written more than 1,000 articles.

SPEAKING ENGAGEMENTS

Mr. Tenenbaum is a frequent lecturer on nonprofit legal topics, having delivered over 850 speaking presentations. He served on the faculty of the ASAE Virtual Law School, and is a regular commentator on nonprofit legal issues for *NBC News*, *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *Los Angeles Times*, *The Washington Times*, *The Baltimore Sun*, *ESPN.com*, *Washington Business Journal*, *Legal Times*, *Association Trends*, *CEO Update*, *Forbes Magazine*, *The Chronicle of Philanthropy*, *The NonProfit Times*, *Politico*, *Bloomberg Business*, *Bloomberg BNA*, *EO Tax Journal*, and other periodicals. He also has been interviewed on nonprofit legal topics on Washington, DC CBS-TV affiliate, the Washington, DC Fox-TV affiliate's morning new program, Voice of America Business Radio, Nonprofit Spark Radio, The Inner Loop Radio, and Through the Noise podcasts.



Kamil Cook

**Associate General Counsel, Corporate Services,
The Nature Conservancy**

Kamil Cook is the Associate General Counsel for Corporate Services at The Nature Conservancy, a nonprofit corporation established to protect and conserve the lands and water on which all life depends. In this role, Kamil is responsible for advising the Conservancy on its conservation investment activities, including structuring and managing joint ventures with for-profit companies, designing conservation investment funds, businesses and accelerators, broker-dealer regulations

and ensuring the Conservancy conducts these activities in full compliance with tax laws.

Prior to joining the Conservancy, Kamil worked in investment management and cross-border project finance with MicroVest Capital Management, a microfinance investment fund manager, and the Export-Import Bank of the United States. She started her legal career with Cleary, Gottlieb, Steen & Hamilton in New York, focusing on Latin American capital markets transactions. Kamil graduated from Columbia University School of Law and Columbia College with a B.A. in Political Science. She is a member of the New York and Washington D.C. bars and Corporate Counsel in the Commonwealth of Virginia.



Javeed Froozan

VP, Research Business Development & Strategic Alliances Leukemia & Lymphoma Society

Javeed Froozan leads the business activities of the LLS Research team in support of LLS' research mission for the LLS Therapy Acceleration Program® (TAP) and LLS Grant programs.

Representative funding transactions include convertible notes, equity, and research collaboration agreements.

His corporate development experience spans over 25 years in early stage, growth, and large biopharmaceutical and health technology firms. This includes work to acquire over \$150 Million worth of companies, products and technologies, enable two IPO's in excess of \$50 million each, strategic sales and funding of projects worth millions of dollars, and to develop and launch new products. His experience also includes fostering investment and job creation with acquisitions of bio-manufacturing, R&D, and headquarters facilities using economic incentives.

Prior to LLS, Javeed was at Emergent BioSolutions in its 10x revenue and market cap growth phase from 2003-2015 including leading the acquisition of Trubion Pharmaceuticals. He managed Emergent's alliance with Pfizer to develop oncology and auto-immune therapeutic candidates, and to develop NuThrax™, a novel, anthrax vaccine adjuvanted with CPG-7909.

Javeed worked with Baxter Healthcare on its cell therapy business focused on CD34+ cells to treat vascular ischemias. Additional work includes benchmarking technology transfer and venture creation, providing pro-bono guidance to entrepreneurs and scientists, and advising on economic planning for the Life Sciences industry

Javeed obtained a B.S. in biology from The University of Michigan, Ann Arbor, and M.B.A. in economics and finance from The University of Michigan, Dearborn.



Tracy Kartye



Annie E. Casey Foundation Director, Social Investments

As Director of Social Investments, Tracy Kartye leads the Annie E. Casey Foundation's social investment portfolio. Casey has allocated 4% of its endowment to investments that achieve a financial return as well as a social returns that build brighter futures for children in the United States. In her tenure at Casey, Ms. Kartye has invested more than \$150 million in projects and nonprofit organizations across the country. These investments have leveraged more than \$1 billion for thousands of new jobs, affordable housing units and community facilities. Ms. Kartye sits on the boards of the Mission Investors Exchange and the Episcopal

Housing Corporation in Baltimore. Ms. Kartye is a graduate of Hendrix College and the Robert F. Wagner Graduate School of Public Service at New York University.



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Impact Investing

When Nonprofits Become Market Innovators, Social Returns Are Exponential

Three lessons from the field for NGOs pursuing social impact investing.

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By **Albert Siemens** | Dec. 12, 2016

Social impact investing has gained a lot of traction in recent years, with a sustainable global investment market estimated to exceed **\$13 trillion in 2014**. And the market's participants vary widely.

Not surprisingly, they include investment giants such as Goldman Sachs, JP Morgan, and BlackRock. These businesses have established social impact investing units, serving clients from the largest foundations (the pioneers in new impact investment

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tools and approaches to grant making) to small family offices that are just beginning to explore best practices.

But NGOs and other nonprofits are also fueling the trend, with notable success. Many have provided micro loans and multiple other forms of capital to small or startup entrepreneurs, and some have supported new enterprises with capacity building, talent recruitment, links to private investors, and access to markets. Mercy Corps, for example, launched a **social venture fund** in 2015 to address early-stage financing gaps; PSI, in 2012, established a **not-for-profit social enterprise in South Africa** for more effective social marketing impact; CARE, in collaboration with Danone Communities, established a separate business entity, **JITA**, to develop a distribution network for products in rural Bangladesh and scale it throughout the country in 2011; and the Cystic Fibrosis Foundation, in lieu of providing grants to academic labs, has funded multiple commercial companies to develop cystic fibrosis treatments since 1999, **resulting in \$3.3 billion in royalties** for the organization.

Clearly, NGO social impact investors are important actors in this area. But distilling “best practice” can be difficult; each NGO journey is so different from the next.


Family Health International’s Experience

As the retired CEO of **Family Health International** (now FHI 360), I think I can offer some insights into the secret to NGO success in social impact investing, in a way that may prove useful for other NGOs engaging in these activities. But first, it’s important to understand our story:


FHI was established in 1971 as the International Fertility Research Program at the University of North Carolina at Chapel Hill. Its goal was to meet the family planning needs of underserved populations globally through clinical studies, product development, and education. But in the early ‘80s, FHI’s board and leadership team faced the daunting challenge of assuring long-term organizational sustainability in light of potentially changing **United States Agency for International Development** (USAID) funding, which represented the majority of FHI’s revenue at the time.

The board explored a variety of solutions, and then, in 1986, became convinced that

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FHI had the potential to conduct clinical trials for other sponsors based on two factors: its longstanding contraceptive clinical studies experience and its faith in the organization's managers, who were championing the unconventional vision.

That vision rested on the recognition that in the early- to mid-'80s pharmaceutical companies had begun outsourcing the management of some of the clinical trials of their products to reduce development costs and time to FDA approval. Being aware of the potential business advantage of early entry into the clinical trials services market, and encouraged by management's discussions with Merck regarding FHI's capacity to implement a large-scale clinical trial of the first "statin" drug in the United States, the board supported pursuit of the opportunity.

However, seeking a service contract with Merck, a commercial company, was not automatic for FHI. Board members, leadership, and staff were concerned that such a business relationship might put FHI's reputation for independent scientific excellence at risk, not to mention its nonprofit status. The commercial contract would mean accepting a large amount of private funding. Furthermore, we wondered, would engaging with a private sector entity create insurmountable internal tensions?

Ultimately FHI's board and leadership team saw the risks as manageable and well worth taking. But we also took action to protect FHI's nonprofit status and further mitigate perceived risks. Specifically, the board approved the formation of a commercial affiliate, **Clinical Research International (CRI)**, and an initial investment of \$240,000 for 79 percent of the common stock of CRI.

CRI and Merck signed the first service contract in December 1986, and the new company flourished. Within the first year of operation, CRI gained additional clients and began paying dividends to FHI, which it used to help build FHI's expertise and capacities in HIV/AIDS.

Four years later, in 1990, the FHI Board, having received offers to purchase CRI for approximately 80 times the initial investment, decided to sell the company to lock-in gains that surpassed all expectations. The sale yielded nearly \$20 million for FHI. The FHI board, seeking to manage these proceeds for the long-term support of FHI's mission, established the FHI Foundation. Initially, the foundation's funds were

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managed professionally for market rates of return. But in 1999, with the goal of growing the endowment substantially and further strengthening FHI's work, the foundation acquired Novella Clinical (previously PharmaLink), an Internet-based startup focused on high-efficiency clinical research. That company, in turn, developed into a specialist in the conduct of oncology and medical device clinical trials, and was acquired by **Quintiles Inc.** in 2013, increasing the FHI Foundation's assets to more than \$150 million.

The Resulting Catalytic Social Impact

Clearly, these activities resulted in strong financial returns. But the social impact far exceeded expectations as well. By building expertise and capacities in HIV/AIDS prevention, care, and support with the dividends from the investment in CRI, FHI attracted substantial donor funding and improved the lives of millions living with HIV.

Consider: In 2001, the FHI Foundation gave a \$1 million grant to FHI to demonstrate the feasibility of introducing antiretroviral therapy (ART) in public health systems in Kenya, Ghana, and Rwanda. These projects provided the critical evidence that USAID needed at the time to expand and rapidly scale-up its HIV treatment programs in countries devastated by the HIV/AIDS epidemic.

And by 2006, FHI was implementing comprehensive HIV/AIDS prevention, care, and treatment programs in 40 countries. As of September 30, 2015, US government funding through multiple partners and agencies was supporting life-saving ART for 9.5 million people. And with the financial support of multiple other governments, foundations, and the Global Fund, 17 million people were accessing therapy globally in **December 2015**.



"I want to advise other people who have AIDS not to despair but to be strong and have hope," said one of the first four clients to receive ARVs at Biryogo Community Clinic in Rwanda. (Image by Jessica Scranton/FHI 360)

What's more, in 2011, the FHI Foundation provided growth capital to FHI to enhance its global development capabilities by acquiring the assets of the **Academy for Educational Development**. Under the new name of FHI 360, the expanded organization is now able to bring a holistic perspective to human development challenges in the United States and around the world, and further maximize its impact.

Lessons from Our Experience

Three elements were central to our success:

1. Our board was open-minded and willing to support an unconventional vision (with appropriate due diligence).
2. We responded to market opportunity early and took informed risks.
3. We deployed creative structures to manage and reinvest financial returns.

The FHI 360 and the FHI Foundation experience reflects and reveals a time-tested model for the private sector, nonprofits, foundations, philanthropists, and individual investors to consider as they aim to achieve social and financial impact. Additionally,

it demonstrates that small amounts of strategically deployed capital can generate catalytic social benefits over time and that the nonprofit sector can play a critically important role in achieving the intended social gains from social impact investing. I hope others agree, and continue to pursue this type of investing with optimism and conviction.



Albert J. Siemens, chairman of the FHI Foundation ([@FHIFoundation](#)), is an executive leader, entrepreneur, pharmacologist, and humanitarian. Over 30 years, together with important collaborators, he led the growth of two for-profit clinical research affiliates of Family Health International, helped establish the FHI Foundation through the sale of the two companies, and as CEO led Family Health International (renamed FHI 360 in 2011) to become a leading global human development organization. He also serves on the board of the nonprofit Made in Durham and on the PEPFAR Scientific Advisory Board.

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COMMENTS



BY Michael MacHarg

ON [December 12, 2016 01:27 PM](#)

Albert, thanks very much for sharing your rich perspective from FHI. Fascinating to see how you leveraged the FHI “asset” - the skills and knowledge of your global team into very successful commercial forays. A bold endeavor, and I very much agree with your conclusions on how to approach this work (a bias for action, a tolerance for appropriate risk, and abundant creativity).

Thank you also for highlighting Mercy Corps’ new efforts in supporting early stage social ventures - companies we feel have the dynamism, impact alignment and commercial chops to navigate successfully through today’s accelerating and challenging world. We’re eager to test new approaches, and have found our Social Venture Fund serving as both a learning lab for Mercy Corps, and a great partner to early stage social enterprises in the communities