



VENABLE

# 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**

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**Speakers**

**Kamil Cook**

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**Javeed Froozan**

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

**Tracy Kartye**

Director, Social Investments, The Annie E. Casey Foundation



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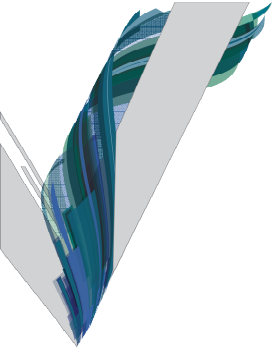
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# Upcoming Venable Nonprofit Events

## 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

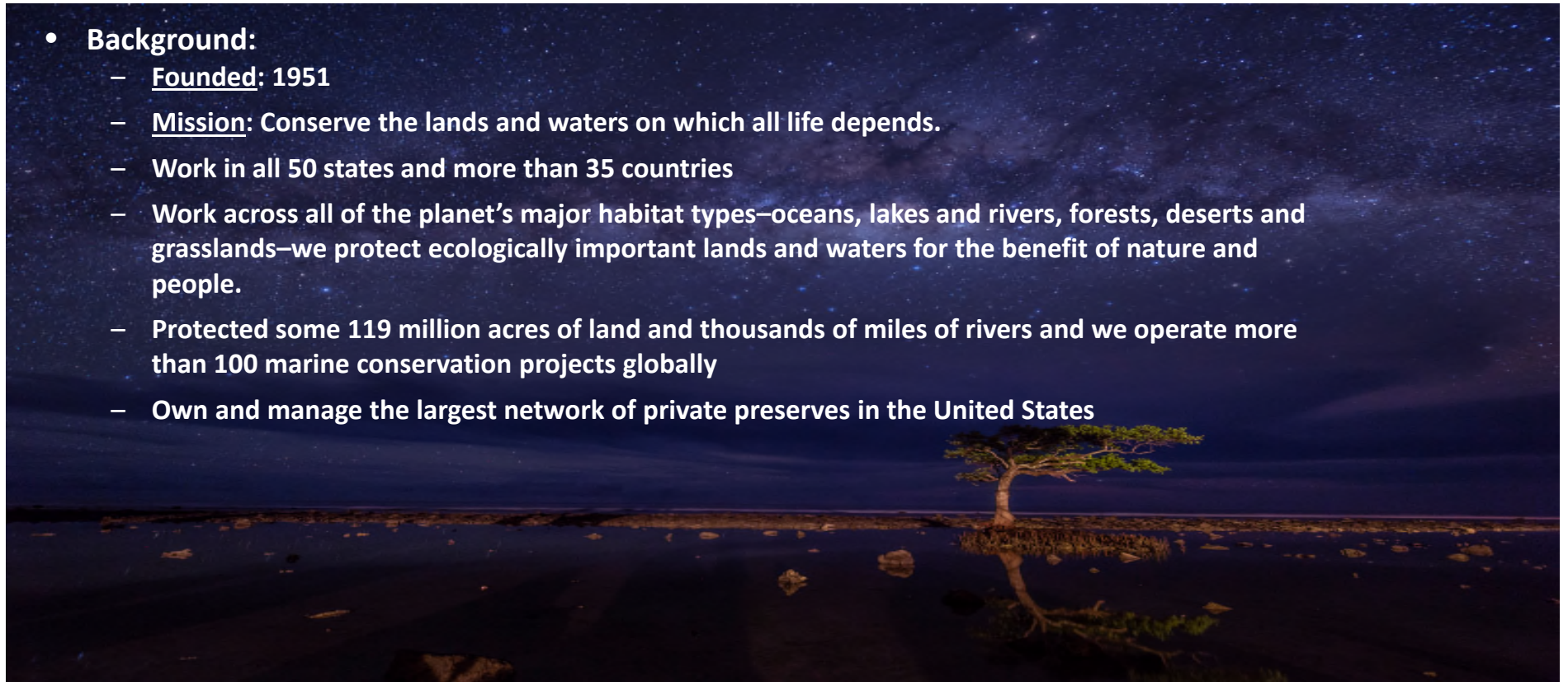
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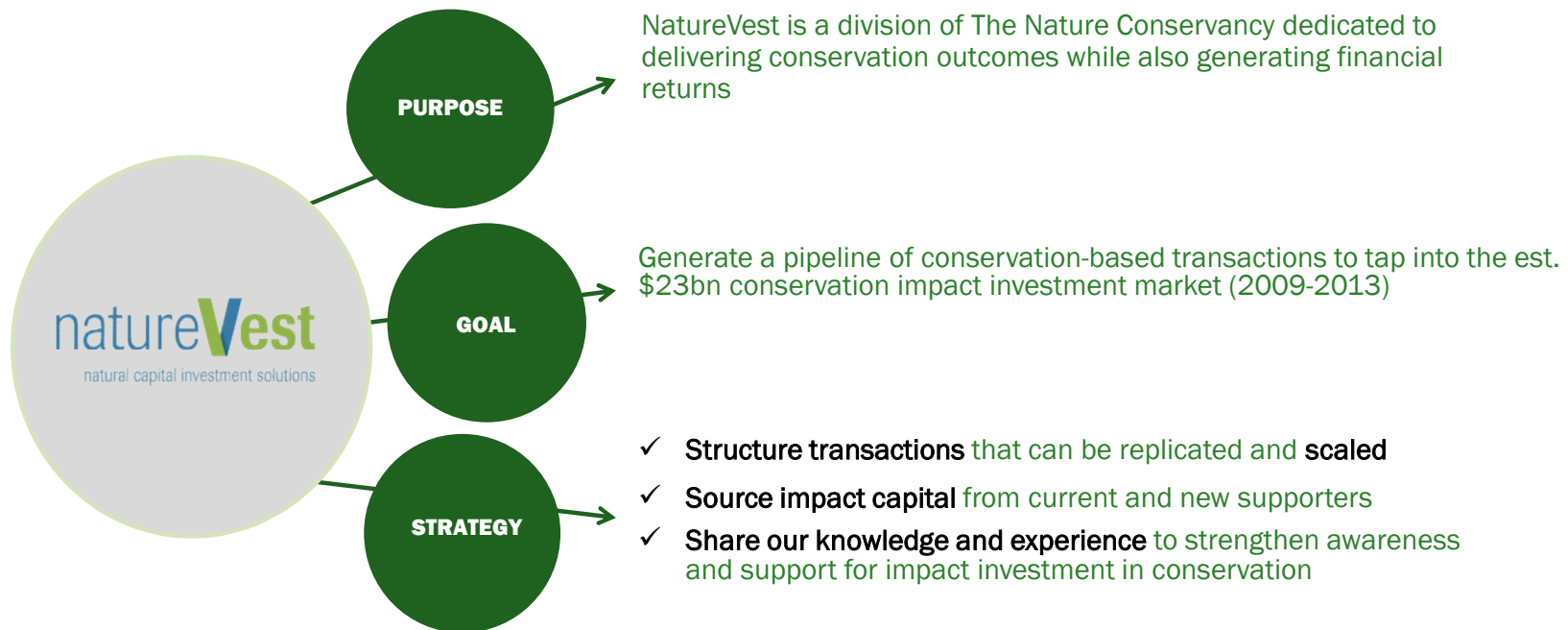


# The Nature Conservancy: History and Mission

- **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





## 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





# 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





# 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







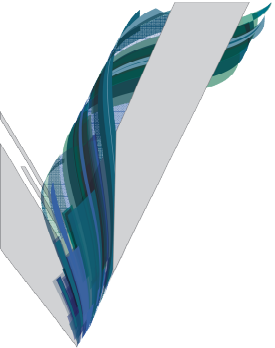
# Water Fund: Conservancy Roles, Opportunities and Challenges (con't)

## 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



# LLS Research

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**someday is today**



**LEUKEMIA &  
LYMPHOMA  
SOCIETY®**

**fighting blood cancers**

**VENABLE**



## **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<sup>®</sup>

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 – IWMMF, 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

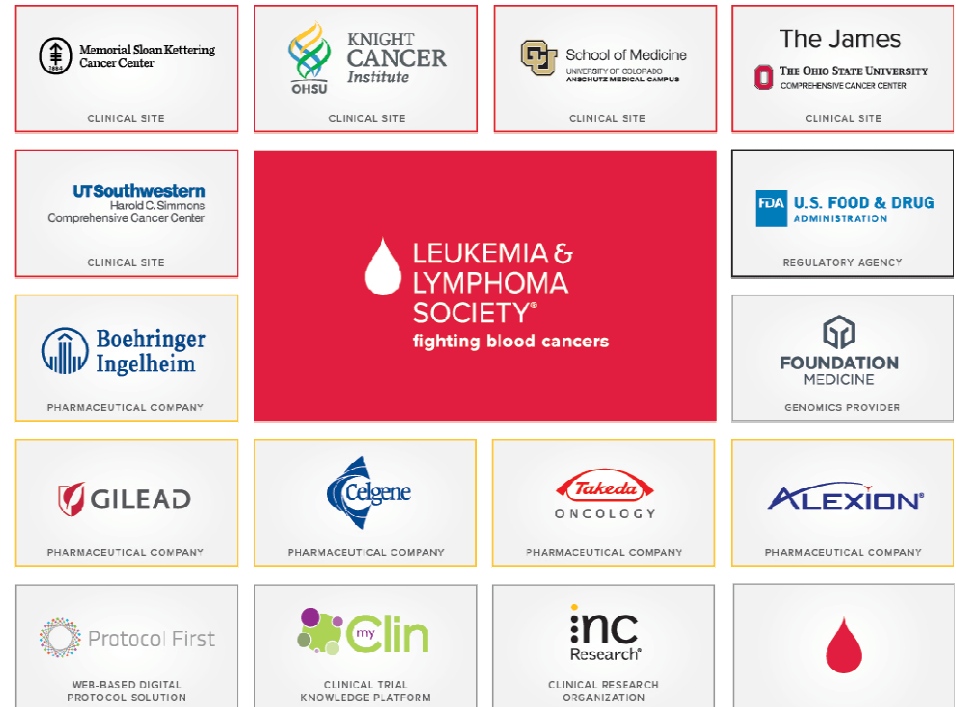
LLS holds the FDA IND

Multiple companies are participating

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

Patients will be newly diagnosed, aged 60+

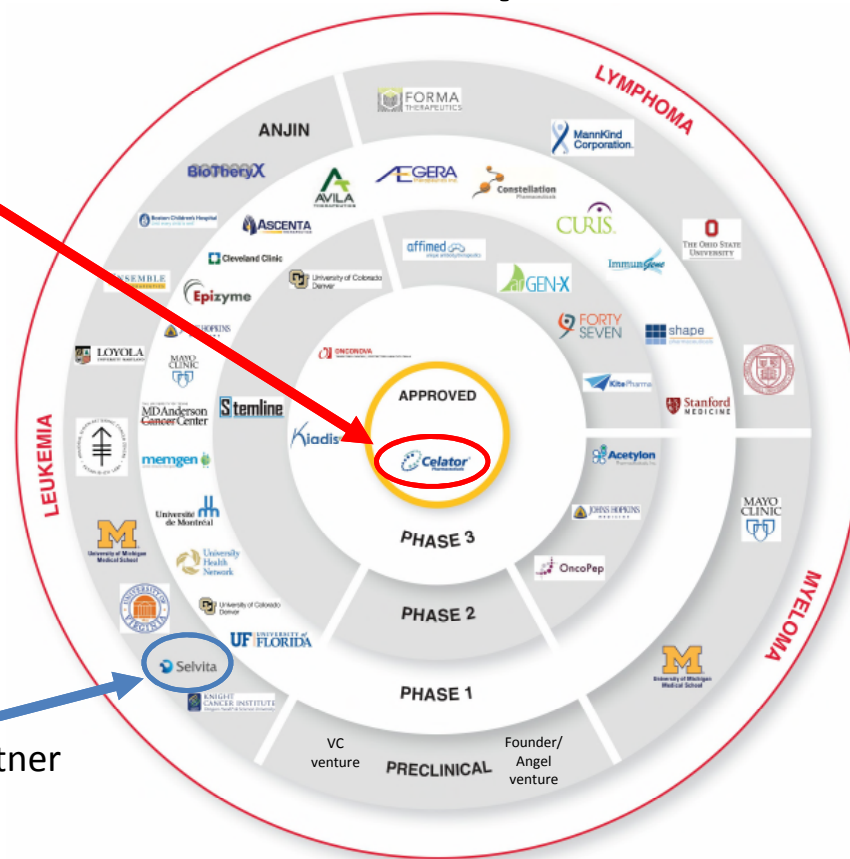
After genomic analysis of their cancer cells, patients will be assigned to trial arms



# Therapy Acceleration Program (TAP)

## >\$100M and ~50 Partnerships Since 2007

First FDA approval funded by TAP



Newest TAP partner  
August 8, 2017



## 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

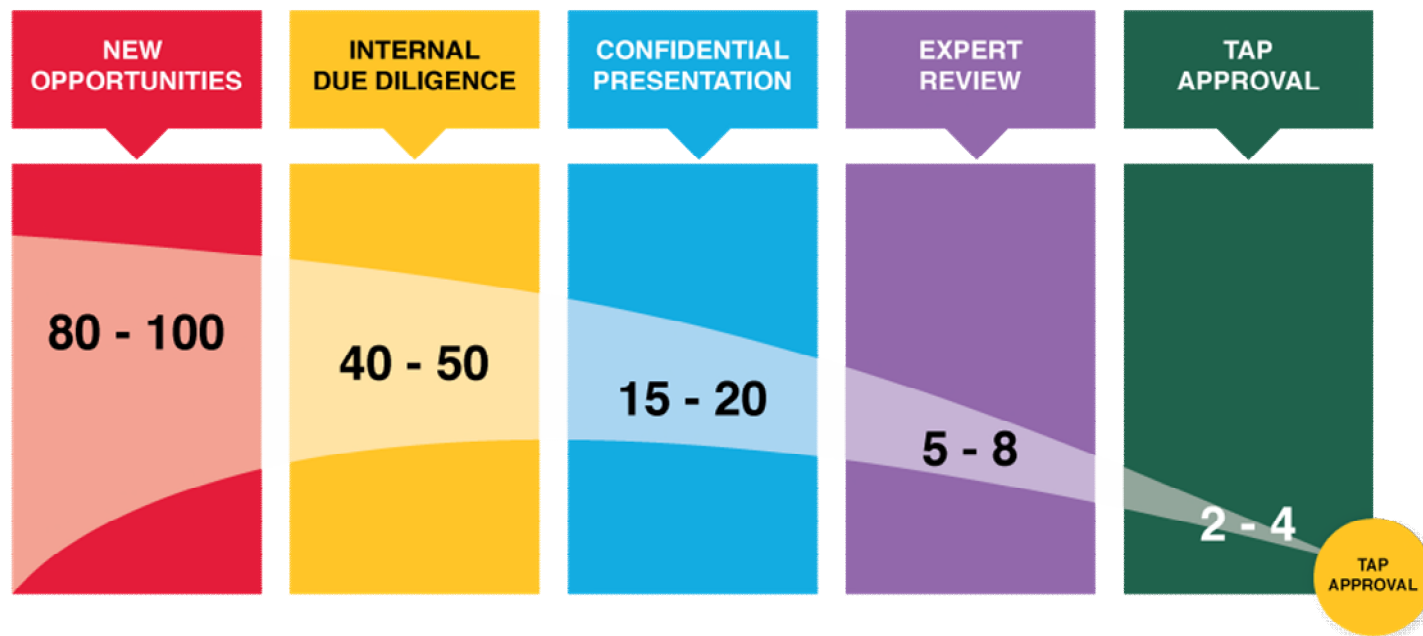
### **Funding may generate financial returns to LLS to fund future research**

- 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)



# 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.

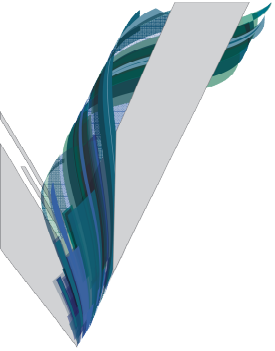
- Grant agreement returns and equity consideration to be segregated.
- Evaluating mission-focused, single-project newcos to develop specific technologies and attract risk capital to set up for future growth of projects.

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.



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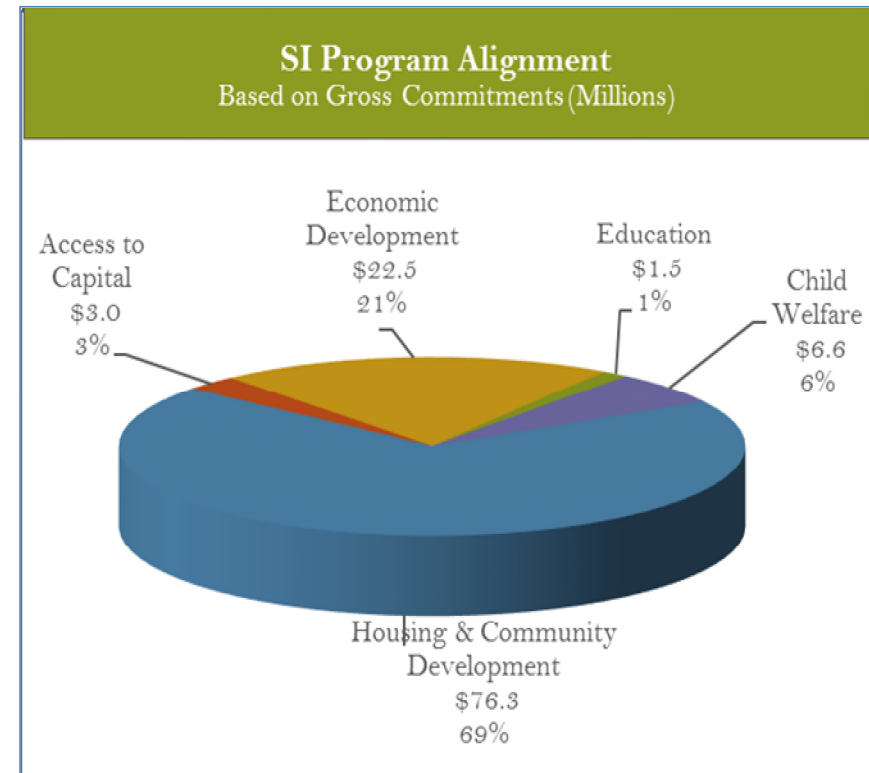


# Annie E. Casey Foundation

- 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

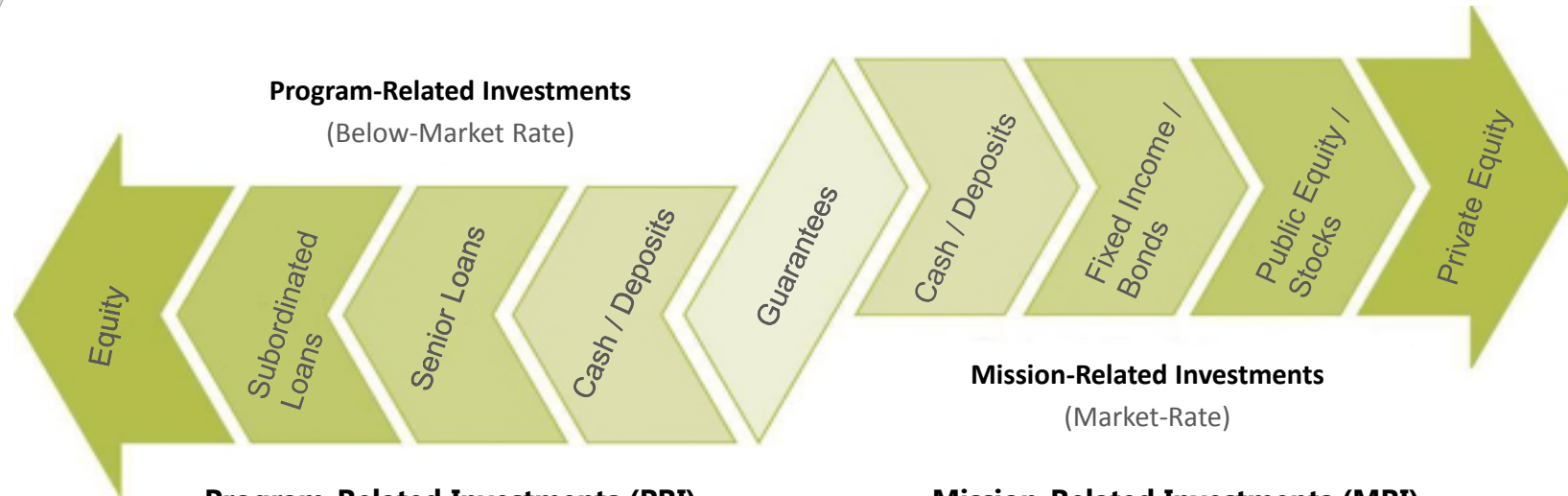




# **\$77.4B in Impact Assets and Growing**

- 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



## Program-Related Investments (PRI)

- Private foundation-specific
- Primary investment purpose to support charitable investment
- No lobbying
- Risk-adjusted concessionary financial return expectation

## Mission-Related Investments (MRI)

- Not codified in IRS code
- IRS guidance for private foundations and pension investors
- Risk-adjusted market rate financial return expectation

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



# 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





# 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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