ALBUQUERQUE COMMUNITY FOUNDATION
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Impact Investment Guidelines

These Guidelines will be read in conjunction with the Albuquerque Community Foundation's Impact Investment Policy and Charter. In the event of a conflict between these Guidelines and the Policy and Charter, the Policy and Charter controls.

Objectives

Financial Goals: Impact investments can earn market or below market rates of financial return. The stated financial target return seeks to preserve the principal long term and earn a return commensurate with investment risks with due consideration given to the anticipated social or cultural impact of the investment. It is expected that the returns on impact investments will generally be lower than traditional market benchmark rates for the respective asset classes; however, in certain cases, the financial return on an impact investment need not be sacrificed to achieve a social impact return. Target rates of financial return for each investment will be established, where possible, based on various factors including the anticipated social or cultural impact or result, associated risks, insights and experience the Foundation may have with the prospective investee organization. The Impact Investment Committee (Committee) acknowledges that target rates of return may not be possible for equity investments.

Impact Goals: Impact investments should be in alignment with the Vision of the Foundation with social or cultural impact in the Greater Albuquerque Metropolitan Area (Bernalillo, Sandoval, Valencia and Torrance Counties) served by the Foundation, but investments that may also impact other regions of the State of New Mexico or the State of New Mexico as a whole are permissible. The Foundation seeks, in general, to make strategic investments where they support or enable the Foundation's broader community leadership and/or can be leveraged to bring a larger pool of funding to the project for positive impact to the community.

Investment Parameters

1. **Risk:** Primary risk concerns include protecting the Impact Investment Fund's principal and the Foundation's reputation. These risks may be mitigated through use of intermediaries in good standing, appropriate due diligence, diversification (as such opportunities may be available), co-investments, term sheet requirements, collateral, guarantee or other forms of loss protection. The Committee shall seek to conduct a risk assessment on each investment and categorize it as No/Minimal Risk, Low Risk, Moderate Risk or High Risk as part of the due diligence and decision-making process. The Foundation acknowledges that the investments to be made through the Impact Investment Fund are inherently higher risk than most other traditional investment opportunities.

2. **Investment Time Horizon:** In general, impact investments are expected to have a time horizon of 7 to 10 years so that a preliminary assessment can be made regarding overall performance of the Initiative at the end of its 6-year pilot time frame in 2022.

5. **Payment Schedule:** The payment schedule for principal and earnings from the invested capital will be negotiated or determined on a case-by-case basis, depending upon the partner's anticipated source and nature of repayments.

6. **Loan Loss Reserve:** An appropriate loss reserve will be established for each loan investment at the time of closing. The rate for loss reserve is to be determined by the Committee depending on the level of risk.

7. **Administrative and Transaction Costs:** Unless such costs can be absorbed by the partner, the Foundation will charge any costs associated with processing the investments including, but not limited to, legal fees and other out-of-pocket expenses to its Impact Investment Operating Fund. These costs may be paid in a number of different ways including, but not limited to, the partner paying the cost up front or building it into the principal amount of the underlying investment.

8. **Processing Time:** The Foundation anticipates the time to close and fund an approved investment will typically range from 60 to 180 days from the receipt of the initial proposal. The actual time may vary depending on a number of factors including, but not limited to, the complexity of the project and proposal, the availability of requested documents for due diligence and other Foundation constraints.

9. **Monitoring and Evaluation:** The Committee will conduct regular monitoring and evaluation of its investments activities and overall performance on a quarterly and annual basis. The Committee will report to the Board of Trustees prior to the end of the second quarter of each year.

   Reports will focus on overall performance of the Impact Investment Fund and will include:

   - Metrics on social and/or cultural impact or results
   - Fund investments and performance
   - Risk assessment for each active investment and for the combined impact investment portfolio
   - Related activities

Reports containing investment activities and performance are to be collected from intermediaries on a quarterly or semi-annual basis depending on the types of investments.

However, the Committee has the authority to make shorter or longer-term investments on a case-by-case basis.

3. **Allocation:** The allocation of impact investments may be driven by the underlying impact investment opportunities and instruments managed by the intermediaries where local impact objectives can be met with sufficient deal flow. In order to mitigate investment concentration risks, the Initiative will limit the maximum amount of assets that can be invested in any single intermediary to 35% of the total committed Fund. This percentage is to be reviewed by the Committee at least annually. The Investment Committee has the discretion to modify this percentage restriction; provided however, in no circumstances shall investments in a single intermediary exceed 50% of the total committed Fund The Committee intends to develop categories of risk and definitions for those categories and anticipates that each investment under consideration will be assessed against those risk categories.

4. **Investment Criteria:** The Committee will consider investment opportunities that have a reasonable likelihood of returning at least the invested capital. Acceptable rates of financial return should be determined in light of the expected social or cultural impact results and the degree of financial risk.
   - The partner requires a minimum investment of $50,000 from the Foundation.
   - A grant is not the right tool to meet the objective, however an impact investment will not preclude the partner from receiving grants through the traditional grant programs of the Foundation.
   - The partner should have a proven track record of repaying invested capital and/or be led by a management team with strong experience in managing such projects to successful social and financial outcomes.
   - The partner should have an identified source of income or asset base for repaying the invested capital. If there are concerns regarding how secure or sufficient the sources of repayments might be, the investment could be further secured by a guarantee from another entity that is financially stronger.
   - The Committee shall assess the prospective partner's potential to achieve an acceptable level of social or cultural results measured against metrics appropriate to the type of investment under consideration. The Committee shall promptly develop metrics or performance measurement criteria for the types of investment opportunities reasonably anticipated by the Foundation. As other opportunities are presented, additional metrics and performance measurement criteria shall be developed for those opportunities. Prior to making any investment decision, the Committee shall develop metrics against which to measure the social or cultural results that are appropriate to the type of investment under consideration. For example, metrics may include number of jobs or new businesses created, number of families supported, revitalization outcomes, etc.