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Helping People Help Themselves: A Conversation with F.B. Heron's Luther Ragin by William Baue

Luther Ragin explains why and how the F.B. Heron Foundation commits a whopping 18 percent of its total assets toward community investment projects (part one of a two-part article).

The Social Investment Forum (SIF) urges socially responsible investment (SRI) firms, institutional investors, and individuals to commit one percent of their portfolios to community investment. This modest allocation is large compared to that of mainstream investment strategies, which generally do not participate in community investing. However, New York City-based [F.B. Heron Foundation](#) commits a significantly higher percentage of its portfolio to community investment as a means of advancing its mission. SocialFunds.com recently spoke with F.B. Heron Foundation's vice president for social investing, Luther M. Ragin, Jr., to discuss the organization's community investing strategy.

SocialFunds.com: What is F.B. Heron's mission?

Luther Ragin: The mission of the F.B. Heron Foundation is to help people and communities to help themselves. In that connection, our focus is on wealth creation strategies for low-income communities and people. And those strategies are specifically around home-ownership, enterprise development, access to capital, affordable accredited childcare, and then comprehensive strategies that may blend a number of these approaches.

SF: What percentage of your investments is in community investment?

LR: As of the end of November, our investments and commitments were \$42 million, which amounts to about 18 percent of our \$230 million in total assets.

SF: That's a significantly higher percentage than even many SRI funds. What is behind your decision to commit such a high percentage to community investment?

LR: I should point out that although the foundation was established in 1992, its commitment to mission-related investing as a component of its overall strategy is only five years old. So since 1997, our focus has encompassed mission-related investing [making investments that are aligned with an organization's mission], grounded in the strategies I mentioned earlier.

SF: Could you explain why F.B. Heron made such a bold shift to mission-related investment?

LR: Rather than limiting its mission activities to the traditional five percent grant payout, the board took the position that it wanted to make a broader range of the assets of the foundation available to support the mission.

SF: What is the range of your community investment activity?

LR: We've invested across the spectrum. We consider grant-making an investment, particularly since 80 percent of our grants are in the form of general operating support for the high-performing groups we engage with.

Next, we move across to program-related investments [PRIs], which are below-market and thus charitable and concessionary in nature, and can include anything from insured deposits, to senior loans, to subordinated loans, to equity investments. Then comes market-rate, so-called double bottom line investments, which seek a risk-adjusted market rate of return consistent with our mission interests and also have the same asset-class distribution: insured and uninsured deposits, loans, subordinated debt, private equity, etc.... There is a wide range of asset classes that we choose to be active in, both in the below-market area and the market-rate area.

SF: Is community investment a term you would apply to all three categories: grant-making; below-market PRIs; and market-rate double bottom line investments?

LR: That's correct. I should point out that the 18 percent statistic cited earlier covers only mission-related investments with financial returns: PRIs, which account for about a third of that \$42 million, and double bottom line investments, which account for about two thirds of the \$42 million. The \$10.5 million we invested in grant-making this year is not included in that 18 percent.

SF: Could you choose an example of an investment that illustrates the work you do?

LR: I think some of the best examples actually might be from our [2001 Annual Report](#), where we specifically highlighted five organizations.

SF: Could you speak in detail about one of these?

LR: Sure. The [Community Reinvestment Fund](#) in Minneapolis has been around for some time, and its primary mission is to create a secondary market in economic development loans in order to increase the flow of capital to inner-city and rural communities. It simply purchases and packages loans from a wide range of Community Development Corporations [CDCs], Community Development Financial Institutions [CDFIs], and quasi-governmental development organizations and securitizes those assets by selling them to institutional investors around the country, requiring that those proceeds are then reinvested by those organizations in new loans and investments in their communities.

We've engaged with the Community Reinvestment Fund in a number of ways. For example, early on we engaged in targeted grant-making to increase their research and development capacity and to support the building of the infrastructure necessary to create an efficient origination and distribution capacity. We also made a PRI in the form of a senior loan to allow them to warehouse loans that they were purchasing from local originators. And finally, through our endowment, we've actually purchased market-rate, investment-quality (although unrated)

notes for our portfolio in the form of the securitized private placements they've packaged. So here's an example where, with one organization, we've used all three categories of mission-related investments.

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Community Investment Pays: More Conversation with F.B. Heron's Luther Ragin
by William Baue

Luther Ragin details F.B. Heron Foundation's returns on its community investments and urges other foundations and institutional investors to consider community investing (part two of a two-part article).

In [part one](#) of this two-part article, [F.B. Heron Foundation](#) Vice President for Social Investing Luther M. Ragin, Jr. began to explain why and how the foundation advances its mission by committing a substantial percentage of its assets to community investment. In today's article, he describes in detail the returns produced by such community investment. He also urges other foundations and institutional investors to seriously consider community investing as a logical fiduciary strategy that can generate competitive returns.

SocialFunds.com: What kinds of returns are you getting on your various investments?

Luther Ragin: We have to go across the spectrum. Of course, grants generate social returns, as I said earlier, so we do not include them when we calculate the amount of assets we devote to mission-related investment, which again amounted to \$42 million this year. And as I said earlier, approximately one third of that \$42 million is devoted to program-related investments [PRI]. So of the third that's in the PRI category, the average rate of return on debt is three percent.

Although that's the average, the range of returns are from one to seven percent.

SF: And what are the average returns for the market-rate double bottom line investments?

LR: For the sake of convenience, I'll divide the double bottom line investments into three asset classes: one we'll call the insured and uninsured deposit portfolio, which has an average return of 3.6 percent. Those tend to be term certificates of deposit [CDs], one-, two-, or three-year. The benchmark for those deposits would be the national average CD rates for paper of that term, so if we're looking at a one-year or two-year or three-year CD, we would look at what the average is as reported through BanxQuote for CDs of that duration.

SF: How are your investments compared to that benchmark?

LR: We're pretty much spot-on. The reason we have a 3.6 percent average, when you might say, "Well, CD rates are pretty low, in fact in some places less than 2 percent," the reason is that you've got one-, two-, and three-year paper, so you're getting an average blend there, the effect of laddering.

The second asset class within that category comprises fixed-income securities and private-placed notes that consist of investment grade, market-rate bonds. These bonds include things like pooled mortgages for low-income families with Freddie Mac guarantees or taxable municipal securities targeting economic development in cities or states or regions. In the year-and-a-half that we've had that portfolio, it's tracked 20 basis points higher than the Lehman Brothers Aggregate, which is the benchmark for the entire U.S. bond market.

The third asset class within the double bottom line investment category is private equity, including things like real estate and other private equity funds such as venture capital type investments. All of those investments have been made since 2000, so they're all relatively new. Although they seem to be doing quite well, it's really too early to tell you what the internal rate of return [IRR] will be from them.

SF: Is there anything else you would like to mention that has not yet come out in our conversation?

LR: Only that we think there are opportunities for all foundations, and certainly other socially motivated investors, to engage in community investing to a far greater degree than most have to date. What we find so intriguing about this market is that there is such a product spectrum in which people can engage. Those who are unwilling to look at below-market opportunities can find that, in the last three to five years, there has been substantial growth in market-rate opportunities to invest in that are high-quality, well-managed portfolios. This pertains to both the bond side and the private equity side. And that's something that ought to be of interest and ought to be noted by the finance and investment sides of any endowment or philanthropy. On the other hand, for those who prefer to work within the context of below-market opportunities, specifically PRIs, there is also a wide range of products around which sensible investments can be made. Both debt and equity products are available in domestic and international markets. Our losses to date on our PRI portfolio have been negligible. And, of course, insured deposits in community development banks and credit unions are a low-risk way to promote community investment.

As we've shown with our bond and privately placed notes portfolio, it's possible to have a social mission and to earn a very competitive risk-adjusted rate of return in, for example, that asset class. That's not a matter of speculation now; it's something that has been demonstrated. With respect to private equity, obviously, because most of those funds are of recent vintage, the jury is still out as to what their IRR will ultimately be. But investors who are interested primarily in economic returns should take note of the quality of fund managers who are now launching double bottom line products.

In adopting this private community investment trust concept, we have chosen to begin taking down the wall between programs and investments at our particular foundation. But that doesn't mean other foundations have to take down their walls in order to engage more in community investment.