AJL FOUNDATION
PROGRAM RELATED INVESTMENTS
DUE DILIGENCE CRITERIA, PRI RATING SYSTEM, & GLOSSARY

DUE DILIGENCE CRITERIA

Relevant criteria will be used to assess each program related investment (PRI) and included in a memo to be reviewed by the Finance and Investment (F&I) Committee at the time of initial PRI approval, annual updates, or as needed. This document exists outside the Programmatic Investment Policy Statement as criteria may be updated as new information becomes available. When possible, we will partner with other organizations to aid in thorough due diligence.

Company/Fund Manager	Team

● Impact Intent
● Financials (monthly, quarterly, annual)
  ○ Earnings, assets, liabilities cashflow, revenue
  ○ Costs, debt, management, tax liabilities
● Commercial
  ○ Stage of Company (mature, growth, early stage)
  ○ References, review assumptions of the business plan
● Legal (structure, contracts, loans, property, employment, pending litigation)
● Environmental (health and safety)
● Cultural (human element, cultural dynamics, values, perceptions)
	● Compelling leadership
	● Demographics, leadership from historically marginalized communities, compensation
	● Support of strategy
	● Ethical conduct
	● Ability to implement, experience
	● Continuity of team members, culture, roles, capabilities, and attitudes
	● Background check , references
	● Interview/ongoing connection with CEO, leadership, board
	● Willingness to share information, i.e. financials

Strategy	**Performance**
● Measured impact ● Profitable proposition ● Business model & product development (plan stands up to realities of the market) ● Sound and repeatable strategy	● History of adding value adjusted for risk ● Returns consistent with process and based on repeatable skill ● Operational expenses ● Physical Assets (leases, appraisals, zoning approvals, surveys), Fixed Assets and Material Assets ● Technological, IT assets
Impact	**Investment Structure**

● Impact thesis or purpose
  ○ Environmental, cultural, bottom line
● Quality of measurement & reporting
● Path to achieving impact
● Potential for mission drift
● Perception of mission
● Risk to AJL, risk to the community of no investment
	● Investment Terms
	● Impact Security, Loan, Guarantee, Private Equity, SAFE Agreement, Blended Capital
	● Exit Strategy
	● Liquidity
	● Cost
	  ○ Fees, Technical Assistance

PROGRAM RELATED INVESTMENTS RATINGS SYSTEM

The Foundation uses the internal ratings system for PRIs as the best indicator of the investment risk including repayment and community impact objectives, identified in the Programmatic Investment Policy Statement (PIPS).

	RATING CRITERIA OVERVIEW		
RATING	FINANCIAL		COMMUNITY IMPACT (SEE ADDITIONAL REVIEW RUBRIC)
	Initial Investment	Existing Investment	
A	Has committed sources of repayment and is in strong financial condition, evidenced by debt service coverage ratios, debt/equity ratios, operating reserve requirements, and/or good operating cash flow. In the case of a loan, the loan has strong collateral coverage with a loan to value ratio that is less than 75%.	Performing and is expected to continue to meet all the terms and conditions set forth in the original documentation. The financial condition of the investee remains strong.	Clear connections to and takes action on focused issue areas to benefit community identified in the PIPS, equity, improves quality of life entirely (100%) for communities and demographics that are marginalized, disenfranchised, and/or vulnerable. Has clear connections to and addresses Sustainable Development Goals (SDGs) #10 Reduced Inequalities, and #11 Sustainable Cities and Communities and aligns with the mission, values, and direct investment goals of the Foundation.
B	A few unmet terms from committed repayment sources but are in satisfactory financial condition, evidenced by debt service coverage ratios, debt/equity ratios, operating reserve requirements, and/or good operating cash flow. In the case of a loan, the loan has adequate collateral coverage with loan to value ratio that is less than 90%.	Performing and expected to continue to meet all the terms and conditions set forth in the original documentation. The financial condition of the investee remains satisfactory.	Connections and takes action on focused issue areas to benefit community identified in the PIPS, improves quality of life for a majority (75%) of communities and demographics that are marginalized, disenfranchised, and/or vulnerable. Has clear connections to and some impact on SDGs #10 Reduced Inequalities and #11 Sustainable Cities and Communities, and aligns with the mission, values, and direct investment goals of the Foundation.
C	Potential weaknesses/deficiencies that deserve closer attention but have the potential to have an outsized impact on the Foundation's impact goals. The weaknesses/deficiencies may be addressed through continued engagement but if uncorrected could result in a deterioration of the repayment prospects of the investee. The loss of principal is not projected but the risk that the organization will be unable to service the debt or repay the equity is high. May include investments with inadequate loan collateral, tight profitability based on financial projections, and/or senior liens.	Recent performance indicates the inability to service the investment, but the loss of principal is unlikely as evidenced by the financial condition of the investee.	Loose connections and some action on focused issue areas to benefit community identified in the PIPS, improves quality of life of (>50%) communities and demographics that are marginalized, disenfranchised, and/or vulnerable. Has some connection to and potential impact for SDGs #10 Reduced Inequalities, and #11 Sustainable Cities and Communities and aligns with the mission, values, and direct investment goals of the Foundation.
D	Inadequately protected by the pledged collateral and/or the paying capacity of the investee. Investments has well defined weaknesses and deficiencies in the investee's financial condition but if the transaction is successful will have an outsized impact on the Foundation's impact goals. There is a distinct possibility of the loss of principal.	Recent performance indicates an inability to repay the investment, potential for loss of principal has increased and/or, the relationship with the organization may be impaired.	Has little connection and/or no action to focused issue areas to benefit community identified in the PIPS, with no discernable impact to improving quality of life for communities and demographics that are marginalized, disenfranchised, and/or vulnerable. Has no connections to or impact on SDGs #10 Reduced Inequalities, and #11 Sustainable Cities and Communities and loosely aligns with the mission, values, and direct investment goals of the Foundation.

Community Impact Rating Rubric

Additional guidance for community impact is used for new and existing investments and only includes considerations for the lowest and highest ratings:

Evaluation criteria	Considerations	D = Weak alignment Projects receiving this score may...	A = Strong alignment Projects receiving this score may...
Quality of Life Impact Potential	1. **Who benefits from the investment and how?** 2. **Can the investment be sustained, scaled, or adapted elsewhere after the investment matures?**	• Has no clear line to improve quality of life or is clearly limited to improvements for dominant majority or historically privileged communities • Lacks ability to sustain, scale, or be adapted elsewhere after the investment matures	• This could include information on the number of people reached, the extent of change achieved, and efforts to overcome challenges encountered in achieving objectives • Families and youth directly benefit from the investment • Can be scaled or aspects of the effort scaled to improve quality of life, especially for un/underserved communities of color, vulnerable, or marginalized communities
Alignment to Sustainable Development Goals **#10 (reduced inequalities) & #11 (sustainable cities and communities)** link	1. **Does it take an innovative approach to solving a key problem?** 2. **What does impact and risk look like from a community lens?** 3. **Can we see how this investment is part of the SDG solutions?**	• Replicate past harmful solutions and teach us little that is new/useful • Involves risks to community that are larger than its gains for reducing inequalities • Have vague or nonexistent impact on making cities inclusive, safe, resilient, and sustainable • Are not equipped to monitor demographics impacted by the investment	• Large or potentially systemic social concerns if the work is not financially supported • Long term social returns are evident • Can be sustained by volunteers and potentially scaled or adapted elsewhere • Reduces inequalities for families and youth within the country and/or makes for inclusive, safe, resilient, sustainable cities
Alignment to AJL mission, values, Direct Investment Goals, & PIPS **(intentions & community impact)**	1. **Is there alignment to serve families and youth?** 2. **Are AJL values evident in the approach, programs, or business of the investment?** 3. **Does it fit with AJLs focused areas identified in the PIPS?**	• Connection to benefits families and/or youth is vague or nonexistent • Does not address environment, diversity, human rights, community engagement, and/or workers rights • Does not include demographics of racial, gender, socioeconomic, or other marginalized and historically underrepresented people • Weak in bold, creative, nontraditional funding response	• Directly address mission by benefitting families and youth and one or more strategic priority focus areas • Alignment with AJL Values of compassion, humility, learning, respect, trust in pursuit of diversity, inclusion, and equity • Lifts up direct investment goals to be bold, creative nontraditional funding response that address gaps overlooked by traditional banks and funders • Alignment with PIPS community impact focused issue areas: environment, diversity, human rights, community engagement, and workers rights • Explicity consistent with AJL mission to serve marginalized and historically underrepresented people

Equity in Community Served	1. **Does it have a specific target community and plans to engage often?** 2. **Does the investment have community support?** **3. Is the demographic served un/underserved, marginalized, and/or vulnerable?**	● Lack a plan to engage with a specific target community. ● Does not have any community discussion or endorsements ● Does not support inclusion in terms of gender, sexual orientation, culture, language, race, ethnicity, age or other aspects of diversity	● They have identified a specific target community and engages with or proactively plans to engage with that community ● Have notified members of the relevant target community and have significant interest/endorsements ● Actively supports inclusion in terms of gender, sexual orientation, culture, language, race, ethnicity, age or other aspects of diversity
Equity in the Organization	**1. Does the organization actively support diversity and equity?** **2. Who is behind the investment**	● Ownership and leadership representation does not mirror community served ● Reputation for equity among other non-profits is low ● Lack of: human element of the company, empathetic management, people and environmental values, recognition of fair pay policies, and work life harmony ● Have an unrealistic scope ● Lack the necessary skills or experience on the team, with no plan to fill these gaps	● Ownership of the company and leadership (Board, C-suite, investment committee, and other key decision making roles) are from historically marginalized communities ● Company has a compelling and actionable diversity, equity and inclusion initiative and progress made in this area ● High degree to which the company's business activities can be accessed by and/or provide benefits to people and communities who have been marginalized or excluded ● Emphasize equity and liberation in their work and ethos

PROCESS

Community
Traditionally combined with the term “stakeholders”, community intends to focus a definition specifically families and youth, people and organizations that support families and youth, typically at the grassroots level but not exclusively.

Due Diligence
An in-depth process of evaluating the opportunities and risks of a particular investment, including the careful confirmation of all critical assumptions and facts presented by a borrower. This includes verifying sources of income, accuracy of financial statements, value of assets that will serve as collateral, the tax status of the borrower, and other material legal and financial information.

Structuring
Deal structuring is the process of originates a transaction that creates the most value creation for all parties involved and sets the terms and conditions of the transaction.

Principal
The original sum of money borrowed in a loan or put into an investment.

INVESTMENT STRUCTURE

Indirect Investments
An indirect investment is a way of investing without directly investing in the property or organization. Indirect investments can be done in many ways, including securities, funds, and/or private equity. Typically, the company that facilities this type of investment is an intermediary.

Direct Investments
An investment, typically an equity investment, made directly into a singular company.

Program Related Investments
A term from Internal Revenue Code Section 4944 that refers to private foundation investments (i) the primary purpose of which is to accomplish one or more of the foundation's exempt purposes, (ii) in which production of income or appreciation of property is not a significant purpose, and (iii) influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose. A program related investment (PRI) can take the form of equity, debt, guarantees, linked deposits, etc., and must be charitable in nature. PRIs are counted toward part of a private foundation’s annual distribution requirement (a 5% minimum). In the event repaid, investment returns are treated as PRIs, but the corpus is added back to the qualifying distribution requirement. Because PRIs are generally expected to be repaid, they can then be recycled into new charitable investments, increasing the leverage of the foundation's distributions.

Intermediary
An organization that raises funds from depositors or investors, including individuals and organizations, and re-lends these funds to other individuals and organizations. Non-profit

financial intermediaries raise funds through grants, program-related investments, and social investments and re-lend to non-profit or other organizations that will undertake projects such as affordable housing development or targeted business assistance.

FINANCIAL INSTRUMENTS

Asset Class
A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are, equities (stocks and real estate), debt (bonds, loans, and notes) and cash equivalents (money market instruments). Program-related investing can be carried out across the spectrum of asset classes.

Equity
Cash invested by owners, developers, or other investors in a project. Equity investments typically take the form of an owner's share in the business and return on equity involves a share of the profits. Evidence of business equity is usually in the form of shares of stock.

Guarantee
An agreement to perform the obligations of a third party if that party defaults. When a third party guarantees a loan, it promises to pay in the event of default by the borrower.

Recoverable Grant
An agreement under which a grantee commits to repay a grant under certain circumstances, generally, if the project financed by the grant is financially successful. If the conditions that trigger the repayment obligation are not met, the grantee is under no obligation to repay, and no default is triggered.

Equity or Debt Pooled fund
A pooled fund is an investment vehicle that allows many individual investors to combine their assets for a specific purpose, such as in the case with a mutual fund, ETF (Exchange Traded Fund), or limited partnership (LP). There are several advantages to investing in pooled funds for investors, such as lower costs, greater ability to diversify a portfolio and the ability to access professional investment management services for smaller accounts that may not meet a minimum account size.

Loan
Funds provided to an organization with a commitment to repay the principal. Loans can have senior or subordinate status, affecting the lender's priority of repayment over other creditors.

Subordinated Loan
The lender takes a subordinate status in relationship to senior debt, to leverage more capital into a project. In the case of liquidation (e.g., the company winds up its affairs and dissolves), the subordinated lender would be paid back after senior lenders.

Senior Loan
A loan in which the borrower pledges an asset (such as property) as collateral. If the borrower defaults, the lender takes possession of the asset used as collateral and has the optional remedy to sell it to regain some or the entire amount originally loaned to the borrower.

Unsecured Loan
A loan issued and supported by the borrower's creditworthiness and not secured by corresponding collateral. As an example, a foundation having a longstanding relationship with a grantee, having done satisfactory due diligence, and having documented justification, terms, and a clear repayment plan may find it appropriate to issue an unsecured loan to the nonprofit.

Convertible Equity
A convertible security is an investment that be changed into another form. Convertible equity blends features of debt and equity into a single investment. Typically, the initial investment is structured as a debt claim and can be converted into an equity investment at a conversion price determined at the time the investment is made.

Line of Credit
A line of credit is an arrangement between the lender and the borrower that establishes the maximum amount the borrower can borrow. The borrower can typically access funds from the line of credit at any time if they do not exceed the maximum amount and are not in default on the credit agreement.

FINANCIAL CONDITIONS

Collateral
Personal or real property that the borrower pledges to assure repayment of a loan.

Covenants
In the loan context, a clause in a loan agreement in which a party promises to do, or to refrain from doing, certain things while the loan is outstanding. Covenants that require a party to do something are called "affirmative covenants." Those that prohibit certain actions are called "negative covenants." Covenants are designed to protect the lender's interest.

Debt Service Coverage Ratio
Change in unrestricted net assets plus interest plus non-cash depreciation divided by current notes payable. Measures an organization's ability to pay its current debt obligations.

Debt Service
The amount of payment due at regular intervals (usually monthly, quarterly, or annually) to meet a debt agreement.

Debt/Equity Ratio
Total liabilities divided by total net assets (sometimes total unrestricted net assets). Sometimes the liabilities are restricted to long-term liabilities only. Measures an organization's debt relative to its equity or net asset base.

Operating Reserve Requirement
Generally, a minimum operating reserve ratio or requirement is 25% or three months of annual operating expenses or budget.

Loan to Value Ratio
The loan to value ratio is the ratio of the amount of the loan compared to the value of the property securing the loan.

Liquidity
Refers to the availability of cash, or "near cash resources," for meeting an organization's obligations. Near cash resources typically refers to investments, inventory, accounts receivable and other assets expected to be available in cash within three months. In the simplest terms, liquidity is the amount of capital that is available to a CDFI for lending or investments. Sources of liquidity may be cash or credit. Liquidity can be affected by lending demand and volume; interest rates charged by investors; regulatory requirements; central bank/corporate credit union deposit requirements; unusual expenses or losses; or the availability of secondary markets for loans and investments.

Default
Failure to meet the terms of an obligation.