

February 2022

OVERVIEW

In 2021, NPX structured \$3.4 million in “Pay For Success” investments for three nonprofits in the Bay Area to drive upward economic mobility for low-income individuals and families.

NPX’s results-based financing model brings together both donors and impact investors (seeking financial returns) to fund nonprofits. The model is powered by an Impact Security, a proprietary financial product that allows a nonprofit to issue performance-based debt to investors and make required payments on the debt over time with funds explicitly linked to outcomes.

The three nonprofits participating include:

Nonprofit	Description
10,000 Degrees	Supports students from low-income backgrounds to access and complete higher education.
Mission Asset Fund	Supports low-income individuals to become active and successful participants in their financial lives.
Rivet School	Supports students to earn a Bachelor’s degree as efficiently and affordably as possible.

BACKGROUND

Goals

NPX launched this work in the Bay Area with three goals:

Goal	Status	Results
Catalyze more capital into nonprofits from both donors and investors	✓	90% of funds came from donors and investors who had not previously supported the nonprofits
Pioneer a new results-based giving model across organizational stages, focus areas and geographies	✓	The organizations funded were a mix of: <ul style="list-style-type: none"> - Early-stage to established nonprofits - Varying issue areas, including education and financial security - Geographies across all 9 Bay Area counties
Drive quantifiable, long-term impact in economic mobility in the Bay Area	✗	In process -- Less than one year has passed since nonprofits received funding -- it is too early to measure this goal



February 2022

Impact Focus: Economic Mobility

The focus for this work is economic mobility, which we define as an individual or family moving out of poverty and/or earning a living wage. NPX evaluated organizations that supported any of the following economic mobility impact areas:

Impact Area	Description
Barriers to Work Address constraints in order to productively engage in work	<ul style="list-style-type: none">- Food security- Access to housing- Childcare- Transportation
Education & Employment Gain the necessary skills or credentials to secure a job that pays a living wage	<ul style="list-style-type: none">- Post-secondary completion- Job training and placement
Financial Security Access to capital and asset accumulation to weather emergencies and build wealth	<ul style="list-style-type: none">- Interventions that strengthen spending, saving, borrowing, and planning

Target Populations

We considered nonprofits that serve people who face barriers to economic mobility, including, but not limited to:

- Individuals and families experiencing homelessness
- Opportunity youth
- Immigrants
- People of color
- Native Americans
- Refugees
- Veterans
- Incarcerated or formerly incarcerated individuals
- Un- and under-employed individuals
- Individuals with developmental disabilities



FUNDERS

Investors

The nonprofits raised \$3.4 million from a diverse group of 21 accredited and institutional investors:

- 42% of funds came from institutional investors, 48% from accredited investors
- 29% of investor funds came from outside of California, including Colorado and Washington

One “new” source of investor capital came through donor-advised funds (DAFs). DAFs allow donors to make irrevocable gifts to a fund and receive a tax deduction. While the funding is held at a DAF, it is invested and many DAFs allow investors to make direct investments. NPX’s results-based model offered DAFs a unique direct investment opportunity to align financial return with impact. Almost 60% of the investments made by accredited investors came through DAFs.

Donors

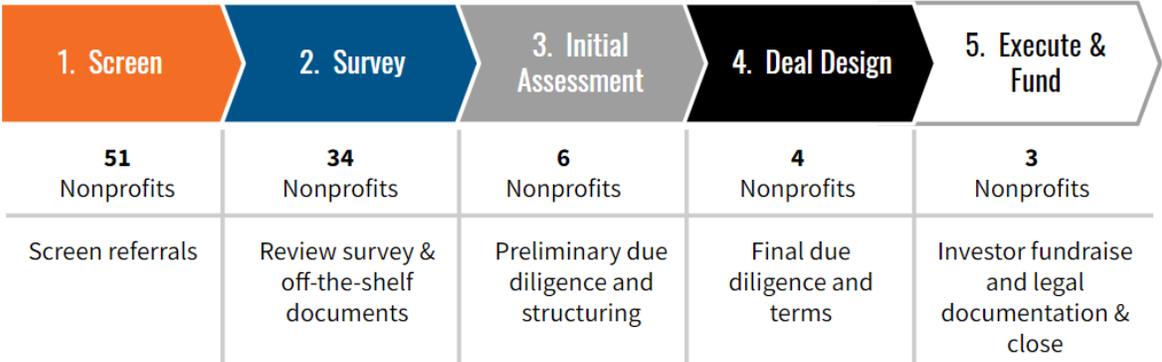
The nonprofits raised \$4.6 million from 23 donors, most of which is “new” to the nonprofits:

- 93% of committed donations are from new donors
- 2 of 3 nonprofits said this funding represents the largest “single” donation ever received

NONPROFIT SELECTION

Process

The three nonprofits that received funding were chosen through a 5-step selection process from 50+ organizations. NPX evaluated organizations with the support of an Economic Mobility Council, consisting of subject matter experts, researchers, practitioners and impact experts.



Criteria

Below is a summary of the criteria used to evaluate nonprofits. Our selection process prioritized the Measurability & Impact Potential criteria above all else -- organizations with quantifiable, measurable impact advanced.

CASE STUDY: BAY AREA ECONOMIC MOBILITY



February 2022

Criteria	Description
Fit with Fund Guidelines	Meets specific fund criteria related to issue area, minimum size and geographic region.
Measurability and Impact Potential	Evidence, internal or external, of outcomes that are quantifiable, measurable and capture change. The breadth and depth of outcomes are meaningful within the context of the target population and geography.
Compelling Strategy	Clear vision and strategy with demonstrated proximity to the problem or solution.
Ability to Execute	Ability to achieve impact targets, including alignment and coordination of internal resources and ability to manage external threats and risks.
Financial Stability	Demonstration of responsible cash management and a high degree of financial controls.
Organizational Health	Diverse leadership team that drives organizational focus, adaptability, a great culture, positive reputation and good governance.

Terms

The deal terms were co-designed by NPX, the nonprofits and monitoring and evaluation experts -- OMNI Institute and QREM. The impact metrics that were selected align with each organization's impact goals, as well as NPX's results-based impact metric framework below:

Impact Metric Criteria	Description
Quantifiable	Measured in specific units
Predictive	The measure is highly predictive of the ultimate outcome
Proximate	The measure is close enough to the ultimate outcome to assume it is the primary driver of the ultimate outcome
Time-bound	The measure can be achieved within 2-5 years
Controllable	The organization has control or influence over the primary factors that contribute to the outcome being achieved
Collectible	The impact can be consistently measured and validated

February 2022

HOW IT WORKS

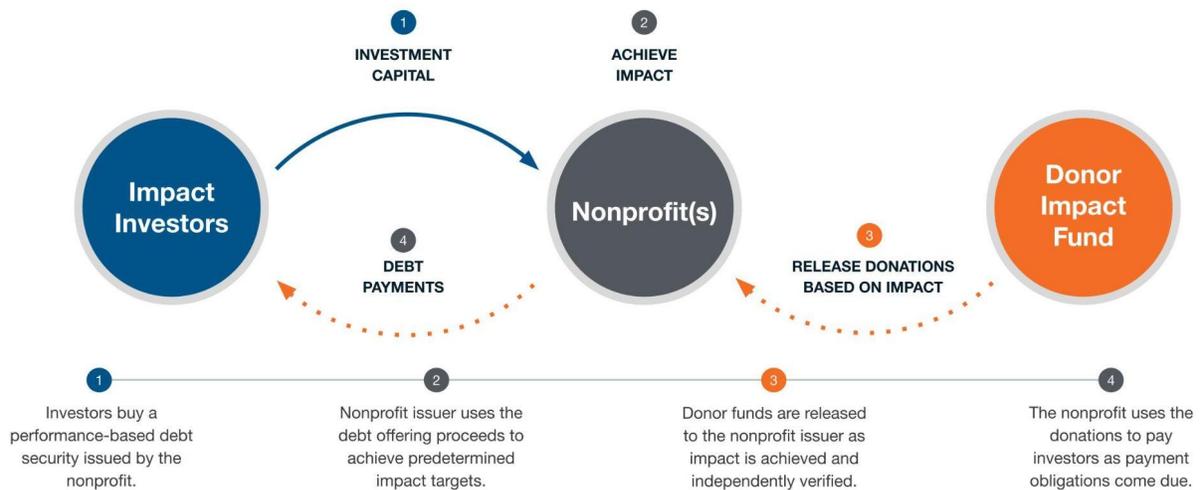
The funding flows and terms were structured to align the three stakeholders -- nonprofits, donors and investors -- around impact.

Impact investors provide upfront funding.

The investment capital raised provides the three nonprofits with multiple years of flexible working capital to run their programs.

An outcomes fund -- the Donor Impact Fund (“DIF”) -- releases donations after impact happens.

As each organization achieves measurable progress towards its impact targets, the Bay Area DIF disburses funding to the nonprofit organizations, which is used to meet investor payment obligations. In addition, a portion of DIFs are reserved for incentive payments given to nonprofits that outperform their impact targets.



The greater the impact that is achieved → the more impact is funded by donors → the higher the return is for investors → the larger the financial incentive is for nonprofits. All stakeholders are aligned to maximize impact.

DISCLAIMER:

This case study is intended to be a summary only and is not intended to and does not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sales of the securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful. Any forward-looking statements reflect current expectations and are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict.

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February 2022



DEAL TERMS

TERMS	10,000 DEGREES	MISSION ASSET FUND	RIVET SCHOOL
Year Issued	2021	2021	2021
Maturity	2025	2025	2025
Location	San Rafael, CA	San Francisco, CA	Richmond, CA
Issue Area	Education & Employment	Financial Security	Education & Employment
Impact Metric(s)	Community college students who complete their Baccalaureate	Credit invisible who establish a credit score	Students who complete their Baccalaureate
Investment Amount	\$1,740,000	\$830,000	\$850,000
Max. Investor Payments	\$1,941,700	\$946,000	\$1,107,680
Nonprofit Incentive Payments	\$171,000 <i>Earn up to \$171,000 for units of impact achieved, paid as \$1,000 stipend to graduates</i>	\$25,000 <i>Earn up to \$25,000 for clients successfully completing the program</i>	\$68,000 <i>Earn up to \$68,000 for units of impact achieved, paid as \$1,000 stipend to graduates</i>
Max. Annual Return	4%	4%	7%
Economic Mobility Council	Sara Bayless, OMNI Institute; Didi Fahey, QREM; Ben Mangan, Arabella Advisors; Neil Phillips, Visible Men Academy; Katherine Rockwell, Former UN Special Envoy's Office; Tracey Stewart, Colorado Health Foundation; Kimberly Wicoff, Board of Trustees SFF		
Research	QREM		
Legal	Mayer Brown LLP		
Impact Auditor	OMNI Institute		
Trustee	US Bank		
Escrow Agent	First Republic Bank		