HEALTHCARE ANCHOR NETWORK

CASE STUDY

Kaiser Permanente: Thriving Communities Fund

Headquartered In Oakland, California And Serving Communities Across Eight States And Washington, DC

Key Strategies Employed

- Designate a portion of investable reserves for place-based investments
- Provide direct loans and equity investments
- Allocate to financial intermediaries, including community development financial institutions (CDFIs) and other investment managers
- Make large investments to signal market gaps and encourage market shifts
- Leverage investments to develop affordable housing and promote local economic development
- Use the Community Health Needs Assessment (CHNA) and ongoing community engagement to inform investment decisions
- Leverage Kaiser Permanente's non-financial assets, industry relationships, and expertise to increase impact of investments

Overview & Background

Based in Oakland, California, Kaiser Permanente is one of the largest healthcare systems in the United States, serving communities across eight states and Washington, DC. Kaiser Permanente's Impact Investing Program seeks to promote sustainable and systemic positive change in Kaiser communities, primarily focusing on supporting underserved populations. The program is a critical aspect of Kaiser Permanente's national Economic Opportunity strategy to promote inclusive economic development in the communities they serve and thereby improve health and reduce mortality rates. Through this strategy, they are leveraging place-based investing.[1] These efforts support Kaiser Permanente's overall mission "to provide high-quality, affordable health care services and to improve the health of our members and the communities we serve."

Kaiser Permanente has a long-standing community health department that works to improve the health of Kaiser communities. This department receives around 3% of Kaiser's revenues. Around 2014, numerous Kaiser Permanente staff members began a campaign across the organization to activate the other 97% of Kaiser's assets to better support the health and well-being of the communities they serve. One

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aspect of this campaign was advocating for impact investing practices. Racheal Meiers, lead of economic opportunity and impact investing at Kaiser Permanente, emphasized, “We were working for a very long time on this goal and it was always to that end: realizing [Kaiser’s] mission and aligning 100% of assets as an organization with that mission.” After many years of internal advocacy, Kaiser Permanente’s Impact Investing Program officially launched in 2018, and is called the Thriving Communities Fund (TCF). While the TCF is strategically aligned with the community health department, they differ operationally.

Peter Lin, senior portfolio manager of pension and investments, emphasized that Kaiser Permanente’s impact investing work is distinct from their philanthropic work. Lin stated, “At the end of the day, the Thriving Communities Fund and our impact investing are not philanthropy. That’s a separate vertical. What we wanted was to use investment capital to fill a gap between market rate investment and philanthropic dollars . . . We wanted capital that’s more flexible than just mission-related investments (MRIs) or just market rate [investments], [that] can fill the gray areas between them. And that was the Thriving Communities Fund.”

Kaiser Permanente has signed onto the Healthcare Anchor Network’s (HAN) Place-based Investment Commitment, through which they have committed to deploy $200 million of unrestricted net assets for place-based impact investments by 2024. They met that goal early, deploying $220 million by the end of 2020. They seek to recycle all profits and principal such that the program is self-sustaining and may grow over time. Affordable housing investments make up 80% of Kaiser Permanente’s impact investments, and the other 20% of investments are related to economic development.

Program Design

Internal advocacy around impact investing at Kaiser Permanente began around 2010. While senior leaders expressed support for impact investing, there was no implementation strategy, and limited examples of large health systems or corporations doing similar work.

Several factors enabled Kaiser Permanente to form an implementation strategy for an impact investing program. Kaiser’s involvement in HAN was one important factor. Shortly after Meiers was hired, HAN was formed in early 2017, and Kaiser Permanente was one of its founding members. Early meetings of HAN provided opportunities for sharing practices around impact investment implementation, which were extremely valuable in helping create investment program models for the health system.

Kaiser Permanente also employed the consulting firm Avivar Capital, which specializes in the design, development, and execution of impact investing strategies, portfolios, and funds. Avivar helped Kaiser Permanente understand how impact investing tools could address the social determinants of health (SDOH), and which organizations were employing these approaches in communities that Kaiser serves. Meiers stated, "[The consultant] helped us identify the playing field of [areas] that fit within the social determinants of health and that could be matched to institutions that Kaiser's treasury department could be comfortable making a loan to."

While the consultant helped determine *where* Kaiser Permanente might make impact investments, Meiers provided clarity to the treasury department on *how* to make impact investments. To do this, Meiers leveraged relationships with other healthcare systems involved in HAN to learn more about their impact investing programs. She also looked at major philanthropic foundations with impact investing commitments, and used their investment policy statements (IPS) to write an IPS for a potential impact investing program at Kaiser Permanente.

This IPS helped the treasury department design the governance framework for the program and align it with the broader IPS. The practical details of implementing an impact investing program were then crafted with further investment governance and risk management, which were well received by senior executive management. "We felt confident we had the right guardrails on both [the impact and finance] sides," highlighted Lin. The strategic and implementation foundational work enabled the successful launch of TCF in 2018.

TCF strives to provide a return that, at a minimum, maintains the purchasing power of principal on a real basis. The program also aims to carve out up to 10% of its assets for high-impact, high-risk investments. The program uses a rigorous investment evaluation process including due diligence, structuring, and ongoing monitoring. To mitigate headline and reputational risk, the program works in close collaboration with the community benefit, government relations, and legal departments at Kaiser Permanente, and also works closely with seasoned intermediaries and partners that bring expertise in relevant sectors and communities and experience in working through issues that arise.

TCF operates only in communities served by Kaiser Permanente, but the program takes a nationally-driven strategy with a goal of spreading investments across their markets–including California, Colorado, Georgia, Hawaii, Maryland, Oregon, Virginia, Washington, and Washington D.C. That said, Kaiser Permanente's investments are proportional to the market size of the geographic regions they serve, resulting in a significant number of investments that are specific to California because California comprises a significant portion of Kaiser's market.

The program is designed to be flexible, and its investment vehicles include loans, guarantees, and private equity, as well as more innovative structures. Investments may be made through funds, managers—such as community development financial institutions (CDFIs)—or directly. When working with CDFIs, the program designates particular regions as the focus area for the investment, and places preference on making investments through commingled funds, which blend assets from different accounts together to reduce the risks and costs of managing accounts separately. For these types of loans, the program also places preference on close-end, finite life loans “because we want to make sure the capital can be recycled to do more impact,” stated Lin.

The program is co-managed by Meiers and Lin, who have an efficient yet thorough process to ensure that the program “achieves its objectives of contributing to Kaiser’s overall mission, delivering the intended impact [to the community], and also [maintaining] the financial investment quality,” stated Lin. Meiers and Lin collaborate to identify potential investments for the portfolio, and Lin leads the due diligence process for selected investments.

Both Meiers and Lin have other responsibilities, which limits their capacity in administering the program. Given their limited staffing capacity and the large geographic scale of communities that Kaiser Permanente serves, Meiers and Lin decided to make fewer, larger investments initially. Their goal with these large investments is to address gaps in the market and inspire market shifts by encouraging other health systems and corporations to join them.

Particularly with their investments in affordable housing, Meiers emphasized that their goals are “to figure out the market gaps, [and] how we [can] move the market, get more systems to invest this way, [and] push housing developers [and other decision-makers] to do things differently.” Lin emphasized that they intend for investments to progress in complexity as the program develops, “We want to do our first [few] projects really well and learn as much as possible off of that so we can progressively do more complex, more strategic, and, most importantly, more focused [projects].”

Partners

Meiers and Lin decided to make investments through partnerships with entities that have the necessary scale, expertise, and resources to allow the program to achieve its goals within the constraints of limited staffing capacity and Kaiser Permanente’s large geographic scale. “At the end of the day, [it’s about] how comfortable [we are] with that partner. How much conviction do we have that they can help us execute on that strategy given the framework that we have? That’s why in [the initial phase of the program] we [have partnered] with CDFIs like [Enterprise Community Partners] and [Local Initiatives Support Corporation] that have the scale, expertise and organizational infrastructure to help us execute our mission. [In the later stage of the program, we’ll] partner with people that are more local and specific,” Lin emphasized.

Kaiser Permanente takes a number of approaches to forming partnerships and working with partners. In some scenarios, they have endorsed the work of a partnership without trying to influence its strategy or direction. This has been the case in instances where they have invested in multi-investor funds. “In these cases, we’re really buying into what they’re already doing, not trying to change it . . . we want to structure our investment to our advantage and to the advantage of the [intended] impact,” highlighted Meiers. This was the case with the SDS Supportive Housing Fund (described below in the Program Impact section), as well as the $500 million multi-investor Bay’s Future Fund, administered by Local Initiatives Support Corporation (LISC), and the San Francisco Foundation, which works to preserve and produce affordable housing in the San Francisco Bay Area.

In other cases, Kaiser Permanente has taken an active role in shaping partnerships. For example, Kaiser Permanente worked with Enterprise Community Partners and local nonprofit developer East Bay Asian Local Development Corporation (EBALDC) to build the $85 million Housing for Health Fund (also described in the Program Impact section below) that would address a market gap. In this situation, they sought to increase the availability of equity capital to allow cash-strapped developers to quickly capture properties when they came on the market in the ultra-competitive real estate environment of the Bay Area. Kaiser Permanente and Enterprise then worked to bring on other investors, and successfully engaged JP Morgan Chase as co-investors.

With this partnership, Kaiser Permanente took the lead in crafting the governance terms. "We intentionally identified a gap in the market that was critical from an impact perspective, and was particularly a risk in the city of Oakland where we cover over half of the residents and have more than 10,000 employees. So we were able to design the fund in a way that was good for us, but also made a signal to the market that brought in co-investment. It was a very intentional partnership development process," emphasized Meiers.

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Program Impact

One example of the program's impact is the Housing for Health Fund mentioned previously, which provides equity capital to support affordable housing preservation in the San Francisco Bay Area and Sacramento. The fund seeks to help mission-aligned developers purchase naturally occurring affordable and aging Low-Income Housing Tax Credit (LIHTC) multi-unit housing, thereby protecting residents from rent increases and possible eviction.

Totaling up to $85 million, the fund is the result of a partnership between Kaiser Permanente and Enterprise Community Partners. Kaiser Permanente invested $15 million upfront to launch the fund, and committed to match up to $35 million in additional capital. JP Morgan Chase co-invested $15 million in the fund in 2019, and an additional $10 million in 2020. Kaiser Permanente went on to match the $25 million invested by JP Morgan Chase, bringing the fund to $65 million as of March 2021. Half of the capital is allocated to be deployed in Oakland, the city of Kaiser Permanente's headquarters and a city in which large, historical economic inequities have led to an affordable housing shortage. As of March 2021, the fund had invested $27 million into ten properties, preserving 637 units of affordable housing.

All borrowers must undergo a health action plan developed by Enterprise that includes a comprehensive assessment of the property for opportunities for health promotion and risks for negative health impact. This assessment includes resident engagement. At the end of the health action plan, the properties must identify priorities for addressing the opportunities and challenges raised

Through investment into SDS Supportive Housing Fund, Kaiser Permanente has supported the building of the Dolores Huerta Apartments, a new Permanent Supportive Housing (PSH) built to address homelessness in Los Angeles, CA.

and how they intend to finance their goals. As of 2021, four properties have completed this health action plan, and Meiers anticipates that more will follow. In reviewing these health action plans, Kaiser Permanente seeks ways to support the identified priorities by leveraging their partners in the community and resources that they have as a healthcare provider. To track and improve social impact over the seven years that the fund will hold stake in most properties, Kaiser Permanente conducts annual surveys with residents on health and well-being.

Another example of note is the SDS Supportive Housing Fund mentioned previously, an innovative real estate impact fund that is seeking to build up to 1,800 financially sustainable permanent supportive housing (PSH) units for people experiencing homelessness in California. The fund's approach will allow for PSH to be rapidly built. Units will be developed statewide, but predominantly in the Los Angeles area, which has a significant and growing homeless population. The fund is managed by SDS Capital Group, and has an exclusive financing relationship with RMG Housing (RMG), an affordable housing developer based in Los Angeles. Kaiser Permanente has committed $50 million to the fund, largely due to the fund's innovative approach to financing and development.

Traditionally, PSH developers require many funding sources to finance their projects, and the length of the development process is five to seven years. In contrast, the fund is able to rapidly deploy 100% of capital needed for projects to RMG, which reduces the development process to less than one month. It also eliminates the need for additional financing or public-sector subsidy. Through the fund's model, PSH will be built at less than half the cost and three times as fast as the average cost and time required to build PSH in California. The fund's approach allows RMG Housing to rapidly scale up its development capacity. The fund is projected to finance 20 to 30 RMG developments in this manner, and has already funded four investments with RMG as of March 2021. By coming into this fund model as lead investor, Kaiser Permanente intends to signal to other decision-makers, "pay attention. More of you should be doing this," emphasized Meiers.

Budget & Staffing

Kaiser Permanente's TCF is leanly resourced, with no full-time staff person assigned to the work. The program's annual budget is limited to costs associated with due diligence and legal support to vet individual investments, as well as maintenance for a simple data platform to track the program's reach across markets.

The program has a number of individuals with a variety of backgrounds who support its operations. With day-to-day functioning, Meiers and Lin collaborate closely. Though Meiers provides expertise on program impact and Lin provides expertise on finance, "We do a lot of exchange of ideas, and that [makes] the program stronger. He'll question things that I think about program impact, and I'll question his assumptions on finance," stated Meiers. Meiers and Lin rely on executive level sponsorship from John Vu, national vice president of community health, and Janice Murphy, vice president of pensions and investments, to provide guidance, oversight, and thought partnership to the work. "What makes this special is the combination of treasury and community health coming together as a cohesive working group with support from senior management," emphasized Lin.

The program also has an Advisory Committee that has a diverse cross-section of leaders from various departments including communications, government relations, sales, business operations, and treasury services. The Advisory Committee also includes market presidents, serving on a rotational basis, who provide a comprehensive perspective on Kaiser Permanente's national footprint. This committee determines which projects will move from pipeline to due diligence, and makes final investment recommendations to the Kaiser Financial Investments Committee for approval. In addition, legal counsel reviews documents associated with each investment.

PROGRAM IMPACT QUICK NUMBERS

As of 2021

- $220 million committed for impact investing, exceeding their commitment to deploy $200 million of unrestricted net assets for place-based impact investments by 2024
- $190 million of committed investments in affordable housing to date
- $30 million of committed investments in economic development to date
- $35 million committed towards the $85 million Housing for Health Fund; $10 million more to be matched, pending additional co-investment
- $27 million invested by the Housing for Health Fund into ten properties, preserving 637 units of affordable housing
- $50 million commitment to the $106 million SDS Supportive Housing Fund
- $40 million contributed to the $500 million Bay's Future Fund

Lessons Learned & Takeaways

Make large investments to circumvent scale challenges and staffing capacity limitations.

Given Kaiser Permanente's enormous market, as well as the limited capacity of the program's staff, Kaiser decided that the program would initially make large investments through partnerships with major entities in order to maximize their impact within their system's specific constraints. With these investments, Kaiser Permanente seeks to address gaps in the market and inspire market shifts by encouraging other key stakeholders to take different approaches.

Engage experienced individuals with a variety of backgrounds to enable success.

Meier's expertise in program impact, Lin's expertise in finance, and the open dialogue between Meiers and Lin have helped make the program successful. Moreover, the close collaboration of the community health and finance departments and the diversity of departments of leaders represented on the program's Advisory Committee have further contributed to the program's success.

Work to develop champions among senior leadership by communicating externally about impact investing work.

The buy-in and excitement of senior leadership for Kaiser Permanente's impact investing work have helped position the program for success. External communication about Kaiser Permanente's impact investing work has also fostered further support from senior leaders by increasing their personal investment in the work, thereby engaging them as champions for the work both externally and internally.

Engage with and learn from peers in the healthcare sector working on impact investing programs.

Meiers emphasized, "I learn so much when I talk to colleagues at other [healthcare] systems because we're all taking such different approaches, and we all have unique [organizational] cultures. Having those relationships is definitely a success factor. Being able to act on them through HAN is a real testament to the value of HAN."

Work strategically to balance financial risk with social impact.

One challenge for the program has been balancing social impact with financial risk. "Our treasury takes this money very seriously . . . we're not going to take undue risk," highlighted Meiers. To balance these two areas, Kaiser Permanente has adopted a very intentional strategy to its direct and indirect lending practices. "Impact investing is not all the same. You have to think about the impact you're trying to have," Meiers stated. For example, relative to direct lending, working with large CDFIs presents lower financial risk, but also inserts an intermediary, which increases the ultimate cost of capital to the community. Including investments with CDFIs, impact fund managers, and, in the future, direct lending, has helped Kaiser Permanente balance these important priorities across their portfolio.

Measure the success of the program on an ongoing basis as the program develops in size and complexity.

"[We] want this to be a self-sustaining program that grows over time . . . Just getting a partnership off the ground is one thing. But also at the same time making sure that it's successful, that it's delivering the intended impact and also financial investment quality on top of that over time is very important as well. Success is measured on an ongoing basis and the goal behind that is that the quality, execution, and governance has to continue to improve as we move forward, as the program gets more complicated and bigger and we have more seasoned assets," Lin highlighted.

Sources

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ENDNOTES

1 For more information on Kaiser Permanente's Economic Opportunity strategy, visit their website here: https://about.kaiserpermanente.org/community-health/improving-community-conditions/economic-opportunity

HEALTHCARE ANCHOR NETWORK