



INVESTING
IN SOCIAL
ENTERPRISES
SINCE 1984

25 YEARS OF SOCIAL FINANCE

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LETTER FROM DON

How do we reconcile this “love thy neighbor” principle ...?

Thomas Friedman wrote a New York Times editorial last month called *The Inflection is Near?* “Let’s step out of the normal boundaries of analysis...and ask a radical question: What if the crisis of 2008 represents something much more fundamental than a deep recession? What if it’s telling us that the whole growth model we created over the last 50 years is simply unsustainable economically and ecologically and that 2008 was when we hit the wall – when Mother Nature and the market both said: ‘No more.’”

Like many of you, I believe these are the right questions to be asking. And, like many of you, I feel that we are now witnessing a fundamental shift in how the economy and the financial system will operate in the decades to come.

Technology will not save the day. Federal policies will plug some holes in the boat, but potentially make things worse in the long run. The real answer: we must change our habits and our expectations – particularly in relation to how we invest our money.

It’s happening. Many people are saving more. New forms of economic exchange are taking root. Resilient trade networks are developing between small businesses anchored in their local communities.

People want to connect more directly with each other; they want to know how they can invest in these community-based, triple-bottom-line businesses; and they will accept a lower rate of return if it comes with lower volatility and higher social/environmental impact. Importantly, more people than ever before are questioning the core assumptions of our monetary system – and realizing that the answers lie within themselves if they have the intention and the will to change.

I return daily to the principle “love thy neighbor as thyself.” If truly embraced, there is no path but service. There is no conclusion but interdependence. There is no basis for our day-to-day work but collaboration.

But how do we reconcile this “love thy neighbor” principle in a competitive, market-based system? First, as a lifetime athlete, I know that competition can bring everyone’s level of performance and fulfillment higher. Second, it is completely legitimate to ask ourselves

In a very challenging economic environment, RSF Social Finance performed well last year:

- We ended the year with \$132.7 million in total assets, up 10% from 2007.
- Our loan portfolio balance was \$75.9 million at year-end, up 40% from 2007.
- Net interest income was \$4.9 million in 2008, up 35% from 2007.
- We also facilitated \$13.8 million in grants through our Donor Advised Funds in 2008, up 111% from 2007.
- In the mission-related investing portfolios of our Donor Advised Funds, net unrealized losses were \$12.3 million—out-performing market benchmarks.

Thanks to all of my fellow staff members and board members for a tremendous amount of hard work in 2008. And, of course, our work would not be possible without you, our donor/investor clients, partners, and friends - thank you, I look forward to continued collaboration.

In service,
Don

“how much is enough?” in a market system – thereby addressing the unlimited fast-growth, consumption-oriented part of our culture. Third, as a spirit of collaboration becomes increasingly prevalent in the marketplace, it will become the standard of how we work and how we invest.

So this becomes the radical (and more hopeful) question to me: As a species, what if we really are transitioning from a top-down, command-and-control, ego-based form of leadership to a less hierarchical, networked, collaborative form of leadership?

“Peace is not merely a distant goal that we seek, but a means by which we arrive at that goal.”

— Martin Luther King, Jr. ☺

All the best,

Don Shaffer, *President & CEO*

A Vibrant Economy of the Future

By John Bloom, Director, Organizational Culture

For 25 years, RSF has been developing ways of working with money that link the intentions of donors and investors with social enterprises that honor the value of intention as a vital part of the financial transaction. RSF has developed investing, lending and giving practices that elevate the intangible deeper social values as essential to meaningful social impact. Inspired by Rudolf Steiner's insights into economic life, these financial vehicles incorporate the notion that money has different qualities when used for purchase, loan, or gift. Since RSF's purpose is to transform the way the world works with money, its first step is to engage in open and direct dialogue with our clients, to understand their purposes, and to develop trust through transparency. This commitment to being direct, transparent, and personal is a key part of our practice no matter what the project. Part of our educational mission is changing our own and our clients' understanding of and attitudes towards how we use the current financial system.

To encourage the development of new means of exchange to augment conventional currency, RSF's Transforming Money Network is host to the Fund for Complementary Currencies. This fund is committed to supporting demonstration projects as well as furthering research in this emerging field. One of these programs is BerkShares, a community currency, exchangeable for federal money, that has proven the leveraging value of local circulation. A second project is TimeBanks and its approach is radically different from BerkShares in that it operates entirely outside the money system. The currency is time. TimeBanks has developed a way to use time as a means of exchange for needs that do not typically show up on balance

sheets, such as caring, companionship, and other kinds of services. A third project under consideration is a business to business (B2B) exchange platform based on debits and credits that can serve local, regional, and world-wide economies. Based on a system called Global Exchange Trading System (GETS), it can be custom designed to meet many kinds of economic needs and circumstances.

A vibrant economy of the future requires that we re-conceive economic life, our means of exchange, and our relationships in local and global communities. To foster this work,

RSF and collaborating partner Praxis Peace Institute will host a summit, The Economics of Peace, in October 2009 in Sonoma, California. This public summit will bring together initiatives, organizations, and networks working on new ways to conduct economic life with the common aim of collaboration, sustainability, and peace.

New approaches to investing, lending, and giving, along with innovations in complementary currencies and exchange systems, are all tools for the economy of the 21st Century—an economy that demands a diversity of means, compassion, creativity, and a central role for community self-determination. With RSF's 25 years of social finance experience, this community has an important voice to contribute to our collective economic future. ☺

“A vibrant economy of the future requires that we re-conceive economic life, . . .”





 GUEST ESSAY

What Will Social Finance Look Like in 25 Years?

By Michael Lerner

We have no idea what the world will look like in 25 years. So, we can scarcely imagine what social finance will look like. But we can imagine what we would like social finance to look like in 25 years.

At a global level, the system of national “fiat currencies” unconnected to any real underlying value seems quite likely to collapse. What will replace the US dollar as the international reserve currency? Bernard Lietaer, the visionary and erudite author of *The Future of Money*, offers what I regard as the best idea so far—an international currency he calls the “Terra” based on a basket of commodities, much as the dollar and other currencies were once based on gold. The Terra would not replace national fiat currencies, Lietaer argues, but would discipline them because the Terra’s value would be based on the real value of commodities such as metals, foodstuffs, oil and gas. If the national currencies were not responsibly managed, corporations (and individuals) would have an option to trade in the Terra instead.

Admittedly, commodities have their own value cycles, so the Terra would not entirely solve the challenge of changes in currency value. But, basing the Terra on widely traded real-world products would eliminate the unlimited extremes of inflation and deflation that plague fiat currencies that are no longer tethered to a gold standard. And, since the Terra would not be created out of central bank debt, it would not require unending growth simply to service the debt, as fiat currencies do. Just as the Terra would discipline government-issued fiat currencies at the national level, local currencies would supplement their deficiencies at the grassroots level. Local currencies exist only to facilitate local trade in goods and services; they are not created out of debt, as are fiat currencies. Local currencies create and value “social capital” that often is not valued by the fiat currencies.

We can imagine a great flourishing of local currencies. The most sophisticated of these local currencies diminish in value if they are not spent within a reasonable period. This form of expiration, called demurrage, discourages hoarding and keeps the exchange of social goods in circulation. One of the developments that would be most

helpful in the near future would be an internet-based system for developing local currencies that could readily be tailored to local conditions.

We can imagine a great proliferation of local banks, credit unions and other systems of community-oriented savings and loans committed to social finance values that are not susceptible to the kinds of manipulation, deceit, and outright fraud that have characterized the large multinational banks in recent years. There are many examples of these banks, and some have done reasonably well through the recent financial crisis. We can even imagine that these local banks, credit unions, and similar institutions might be networked to provide global citizens with national and international credit systems they could trust. These networks would serve as a counterbalance to the egregious malpractices of the banking behemoths.

We can imagine that all corporations would be required to conduct triple-bottom line audits with credible auditors, and that their taxes would be based on their audit performance. Likewise, individual taxes would tax social and environmental detriments rather than social and environmental benefits. We would tax carbon and pollution, not income and vegetables.

Finally, we can imagine that the whole system of local, national and international social finance would reflect a new understanding of ecological and human energy flows. We would have a global financial structure firmly based in responsible local practices. The financial structures based on predatory practices that destroy life would not disappear overnight. But a growing global community would have ready access to financial structures that, in their essential nature, support life. We could choose those forms of money, savings and trade that support life—and thrive together. ♻️

MICHAEL LERNER is president of Commonweal, Smith Farm Center for Healing and the Arts, the Jenifer Altman Foundation, and Barbara Smith Fund.
www.commonweal.org



CLIENTS IN CONVERSATION

Emil Ravetto, Jr. and Richard Katz and Patricia Kaminski



In conversation with Mark Herrera

Q: EMIL, WHY DO YOU CHOOSE TO INVEST THROUGH RSF?

Emil: I opened my investor account at RSF in 1985 because I realized that money could bring constructive change to society. I sensed that Rudolf Steiner's insights into money and how money infused with spirit could bring us out of our [economic and cultural] dilemma. Hopefully, more people will come to see the importance of this way of working with money. I see us—investors and borrowers—as part of the solution to a better future.

Q: RICHARD AND PATRICIA, WHAT LED TO YOU TO APPROACH RSF FOR FINANCING?

Patricia: RSF sees money in a different way than banks do. RSF's first question to a borrower is, "How do you contribute to the social good?" The purchase of the land that your loan financed is facilitating the development of our Biodynamic gardens, as well as the expansion of our cottage industry for making plant essences. This land was a major living site for the Southern Maidu, a Native American tribe, which was devastated during the Gold Rush. It's important to us to build a bridge on our land that heals past and present, one that we can "safely cross."

Q: EMIL, IS THERE A PARTICULAR LOAN PROJECT YOU FEEL CLOSE TO?

Emil: I have visited the Hawthorne Valley Community in Ghent, New York and it's given me an increased appreciation for Waldorf education, how necessary education is if people are to understand and know freedom. The community is now celebrating 35 years of educating children and adults and the promotion of sustainable agriculture. I've watched the Community's growth from the beginning and see how much of an impact RSF's work has had, how the community has matured. (To learn more, please visit www.hawthornevalleyassociation.org.)

Q: AS BORROWERS, WHAT ARE YOU LOOKING FOR IN A LENDER?

Richard: With RSF it feels more like a dialog than simply a financial transaction. I like knowing that the intention of the RSF investor is to contribute to the social good.

Patricia: I admire RSF's social consciousness. When looking to fund a project, RSF challenges the community to show broad-based support for the project also.

Q: HOW ARE MONEY AND SPIRIT RELATED?

Richard: Money serves as an exchange of energy. When it's not guided in a healthy way, it becomes toxic. The traditional financial system is out of balance.

Emil: This is why it is so vital to see Steiner-inspired initiatives grow; they provide a benefit that is cultural and spiritual.

Patricia: I want to thank you, Emil, as an investor, for holding all of us to this higher standard. Your encouragement creates a big impact, and helps promote holistic health which is at the forefront of all we do. 🌀

EMIL RAVETTO, JR., is retired from the restaurant business, lives in New York and has been an investor with RSF since 1985.

PATRICIA KAMINSKI and **RICHARD KATZ** manage Flower Essence Services, which produces flower essences and herbal products on their Biodynamic garden and wildlife sanctuary in California. FES received a loan from RSF in 2008. www.fesflowers.com

MARK HERRERA is Manager of Client Development at RSF.

25 YEARS | 2008 ANNUAL REPORT



Thinking, Feeling, and Willing

Dear Clients and Friends,

In these difficult times, my great hope is that we can move to a culture that balances our needs and wants with our actions and insights:

- Insights come from our capacity to think in ways that are creative and relevant to the present time;
- Needs and wants come from our feelings and desires;
- Actions and deeds in the world come out of our will.

These three soul forces in every human being—thinking, feeling and willing—need to come back into balance. Each of these soul forces and qualities is reflected in society at large as well.

So we cannot just focus on the economy. The economy is but one leg of a three-legged stool. Culture and human rights are the other two. We need to focus our creative capacity on developing a culture that has an emphasis on education, the

arts and our connection with spirit. This needs to be in tandem with a society where fundamental human rights are honored and differences are celebrated.

Each of us has different abilities and gifts. However, when it comes to feeling, we need to recognize that this makes us equal; we are all the same when it comes to our basic human needs and emotions. Keeping this perspective in mind, we can effect great change in ourselves and in our world. We can truly take up our role as fellow citizens and reconnect with our local and regional communities with fresh ideas and action plans.

Clearly, we have become disconnected from the soul force of “feeling.” How can it be that some executives believe that their contributions to society deserve compensation 400 times or more than that of their lowest paid employees? When the company cannot contribute to retirement or health care for its employees, how can this be perceived as progress? Times like this provide

IN THE ANNUAL REPORT

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“... we can effect great change in ourselves and in our world.”

an opportunity for all of us to be re-educated. We need to “educate” our conscience as well. Imagine if we took the time to really listen to our conscience. What would an education of conscience look like?

We, at RSF, experience opportunities for this “education” every day. We are in continuous dialogue with our clients about how to work with money that takes into account both sides of a transaction.

- We seek to support a new culture through all the projects we support: What does it feel like to know that your investment is directly supporting positive forces in society?
- We seek to understand how to best facilitate transactions conducted in a spirit of service: How does it feel to have your will more consciously connected with your money, and thereby impact the change you seek?

As I look back over these 25 years at RSF, it is hard to believe that we began with just \$6,000! I am amazed at the flow of resources that have come through our work. All of this seems like the preparation for the real steps that need to be taken now. Those who choose to work at RSF, and those of you who have chosen to place

some of your financial resources in trust with us, bring spirit into the daily transactions that effect meaningful change in society—thus creating a shift in consciousness in ourselves.

I am so grateful to all of you who have placed your trust in us these many years. I am grateful to all the current staff members as well as those who have come before—you have made RSF what it is today. I am also grateful to all our past board members. When I think of all the board members, staff and clients that have brought a bit of their spirit to bear on the mission of RSF, I experience it as a great woven tapestry consisting of all the elements in our culture. Without each and every one of you being a thread in this tapestry, we would not now be ready and able to step up to embrace the next phase of this challenging—and immensely rewarding—work. Thank you for the honor of serving you during the past 25 years—and here’s to the next 25!

Sincerely,



Mark A. Finser, *Chair of the Board*

RSF BOARD OF TRUSTEES

Russell Agee	Martha Daetwyler	Rachael Flug	Don Shaffer
Neil Blomquist	Mark A. Finser	Mark A. Retzloff	Scott A. Williams
Sara Ellis Conant	Siegfried E. Finser	Jessica Rolph	

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Lending Highlights

By Esther Park, Director, Lending Program

RSF's Lending Program has come a long way since 1984. At that time, RSF had a portfolio balance of \$88,000, which was a partial disbursement to our first loan client, Pine Hill Waldorf School. In 2008, RSF disbursed approximately \$37 million in new loans to a total of 25 borrowers. At the end of 2008, RSF had a loan portfolio balance of \$75.9 million, representing 120 loans. Over the past three years, we have doubled our portfolio balance. Since 1984, we have disbursed over \$165 million to mission-aligned nonprofit and for-profit social enterprises. We believe the reason our total losses have represented less than 1% of total lending (a very small proportion compared to other lenders) is, in large part, to do with the interdependence we foster among borrowers and investors.

Despite the growth and evolution of our portfolio, RSF continues to lend in much the same way as it has from the very beginning. We start with the relationships. Our practice is to facilitate a broader awareness of the connection both amongst borrowers and amongst investors and borrowers (see it happen on page 5). Our vision is to see our borrowers' missions actualized while maintaining the safety of our investors' funds.

We will continue to bring innovative approaches to lending. In February, we launched a Mezzanine Finance fund, the purpose of which is to help social enterprises achieve growth through a mix of debt and equity. Later this year, we will launch a PRI (Program-Related Investment) Loan product, which will offer below-market loans for innovative social impact, as well as an ESOP (Employee Stock Option Plan) Loan product,

which will help companies empower their employees through ownership.

NEW LOANS IN 2008

FOOD AND AGRICULTURE

CECOVASA: A fair trade and organic coffee farmer cooperative in the Amazonian Andes of Peru founded by Quechua and Aymara smallholder growers that produce quality coffee and a strong sense of community.

COCLA: A fair trade and organic coffee farming cooperative serving 8,500 small-scale family farmers spanning the Cuzco region of Southern Peru.

Essential Living Foods: A certified organic, fair trade, and conservation-driven importer and distributor focused on making internationally available the highest quality, ecologically sound food products from around the globe.

Flower Essence Service: A manufacturer and distributor of biodynamic natural health products derived from flower essences.

Laloo's: A manufacturer of goat's milk ice cream, which is low fat, low in lactose, contains no growth hormones, and is made the farmstead way from natural ingredients that are locally produced in Sonoma County.

Mary's Gone Crackers: A company that manufactures wheat-free and gluten-free snacks using the highest quality and organically grown ingredients.

Evergreen Lodge



Desert Marigold Waldorf School

Peeled Snacks: A snack food company that creates tasty and healthy varieties of sustainably farmed and organic fruit and nut snacks with no added sugar or fat.

Sambazon (Mezzanine Fund): The global leader in açai, the deliciously nutritious purple berry from the Amazon rainforest, helping create worldwide awareness and demand for the açai fruit while supporting local indigenous communities in Brazil.

Samovar Tea Lounge: Tranquil tea lounges in San Francisco that makes the world of sustainably sourced tea approachable and affordable.

Small Potatoes Urban Delivery, Inc. (SPUD): One of North America's leading organic grocery delivery services focusing on local supply chain.

Thankful Harvest: An organic beef farm in Iowa whose happy, healthy cows are grass-fed and spend their days in the sunshine, resulting in nutritious, tender, and delicious meat.

EDUCATION AND THE ARTS

Advanced Workstations in Education: A developer and supplier of early education literacy programs for economically disadvantaged schools and libraries.

Aurora Waldorf School of Alaska: A school whose rich curriculum and innovative teaching methods addresses the whole child, working to develop clarity in thought, balance in feeling, and conscience and initiative in action.

Equal Access: A nonprofit organization that provides information and education in the developing world through targeted content, cost-effective technology, and community engagement.

Evergreen Lodge: A lodge near Yosemite National Park that incorporates, in its business, a youth program for high-potential young adults from urban backgrounds who work as seasonal interns.

High Tech High: Public charter schools in Chula Vista and San Diego specializing in math, science, and engineering, whose goal is to redesign education to ensure that all students graduate well prepared for college, work, and citizenship.

North Star Academy Charter School: An academy that serves children in Newark, NJ by building an uncommon school where students partake of a rigorous, 11-month, extended day, academic program that gives them the means to beat the odds in school and life.

Odegard: A company that exports fair trade handmade rugs from Nepal which are made by Tibetan exiles using some of the finest wool in the world from Himalayan sheep.

Taos Country Day School: An independent nonprofit school serving 145 students in pre-kindergarten through eighth grades. While embodying the heart and soul of a pioneer school, their programs feature a Waldorf curriculum, experienced staff, and a strong parent community.

Ten Directions: A spiritual learning organization that runs a sustainable, holistic retreat center in Connecticut.

Tucson Waldorf School: An independent grade school that cultivates clarity of thought, sensitivity of feeling, and strength of will, enabling its students to become balanced, creative human beings capable of independent human judgment.

Desert Marigold: A Waldorf-inspired, tuition-free charter school in Phoenix, Arizona, serving children in kindergarten through sixth grade. The school offers a vigorous academic, artistic and physical education program that strives to engage and nourish each child's innate interests, creativity and love for learning.

ECOLOGICAL STEWARDSHIP

Farmer's Conservation Alliance: A rural development organization founded by a branch of the USDA to research and implement alternative environmental conservation programs for farmers in the Pacific Northwest.

Pachamama Alliance: A nonprofit organization dedicated to protecting the Earth's rainforests and the indigenous peoples who live within them.

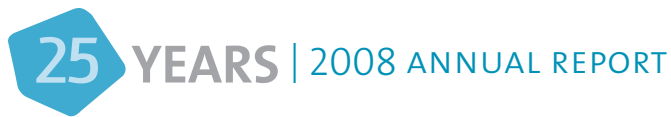
Root Capital: Provides debt capital to small-to-medium enterprises whose production or processing activities foster environmental conservation and socially equitable development.



Equal Access

Farmer's Conservation Alliance





Giving Highlights

By Kelley Buhles, Program Manager

Through its Donor Advised Funds, RSF has been making grants since 1984. While some donors choose to open funds with the required minimum of \$5,000, others may donate a million dollars or more into their accounts. What connects these donors is their shared desire to create good in the world through supporting their chosen charities. Donor Advised Funds are not unique to RSF; other organizations offer them, however how the funds are invested while they are at RSF is distinctive and critical to our mission (see page 12).

The RSF way has always been to push the boundaries. It is in the organization's DNA to delve deeper and to look farther. We ask: How can we facilitate greater good and help others to allow their light to shine more brightly? In that spirit, we have created a new model of giving: the RSF Focus Area Funds. This granting

In 2008, RSF achieved an all-time grant making high with \$13.8 million distributed, as compared to \$6.5 million in 2007, and \$9.5 million in 2006. The record prior to that was grants totaling \$10 million in 2004. We received \$18.3 million in gifts in 2008, the third largest amount we have received in a single year. We are gratified by the trust our donors show by choosing RSF to support their grant making.

GRANTEES IN 2008

To see a full list of 2008 grantees, go to www.rsfsocialfinance.org/services/giving/2008-grantees

FOOD AND AGRICULTURE

Biodynamic Farming and Gardening Association:

Membership organization fostering knowledge and applications of the biodynamic method of agriculture, horticulture, and forestry in North America.

Navdanya: Supports local farmers in India by conserving crops and plants that are being pushed to extinction and making them available through direct marketing.

Rugmark Foundation USA: Devoted to building schools, programs and opportunities that give children back their childhoods by ending child labor in the handmade carpet industry in South Asia. ✍

The Tides Center – United Students for Fair Trade: National network of students and youth working in solidarity with

program will bring project representatives together to collaborate, not compete and to learn from and with each other. The projects will be chosen from a pool recommended by the RSF community. Then, to foster a spirit of kinship, they decide as a group how and where the money can be used for the most impact. The potential grantees will essentially be deciding on grants to each other.

This initiative is based on the RSF Focus Areas: Food & Agriculture, Education & the Arts, and Ecological Stewardship. This year, we will launch the first Focus Area Fund addressing key issues in Food & Agriculture. If you would like to support this new way of giving, please contact Kelley Buhles at 415.561.6152 or kelley.buhles@rsfsocialfinance.org

cooperative communities to promote fair trade principles, products and policies.

Village Earth – Buffalo Caretakers Cooperative:

Creating a viable Lakota owned and managed cooperative that will market natural, grass-fed bison products produced on the Pine Ridge Indian Reservation in South Dakota. ✍

EDUCATION & THE ARTS

Association of Waldorf Schools in North America: Provides leadership to Waldorf schools by facilitating resources, networks and research as they strive towards excellence and build healthy school communities.



Village Earth – Buffalo Caretakers Cooperative

Buckminster Fuller Institute: Dedicated to accelerating the development and deployment of solutions which radically advance human well being and the health of our planet's ecosystems.

E.F. Schumacher Society: Works to promote the building of strong local economies that link people, land, and community. Operates BerkShares, one of the most successful local currencies in the U.S. (see page 3).



Freunde der Erziehungskunst Rudolf Steiners e.V.

Freunde der Erziehungskunst Rudolf Steiners e.V.:

Supports the worldwide Waldorf movement through voluntary support, advisory service, and facilitation of international donations.

Small Miracles Project: Grassroots non profit created to facilitate and provide arts workshops to underprivileged children around the world. ✂

Tibetan Buddhist Resource

Center: Promotes research and scholarship in Tibetan Buddhism and advances the preservation of Tibetan culture by making its literary tradition available through digital images.



Tibetan Buddhist Resource Center

ECOLOGICAL STEWARDSHIP

David Brower Center: 50,000 square foot commercial green building in Berkeley, CA, that will serve as a home for the environmental movement of the twenty-first century.

Fossil Rim Wildlife: Leader in propagation and management programs, scientific research, diverse public education initiatives and training facilities for conservation professionals.



Fossil Rim Wildlife

Global Exchange – Green Guardian's Program: Prepares San Francisco youth, especially residents from underserved communities, for a green career path through job opportunities and leadership training. ✂

Green for All: Dedicated to building an inclusive green economy strong enough to lift people out of poverty by advocating for job creation, job training, and entrepreneurial opportunities.

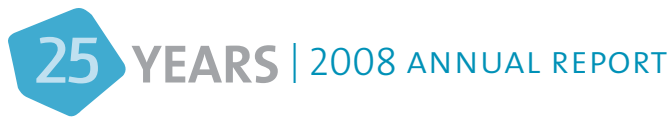
Pesticide Action Network: Promotes the elimination of highly hazardous pesticides and offers solutions that protect people and the environment.

OTHER

B Lab: Supports socially responsible businesses through a comprehensive and transparent rating system and the marketing of a collective brand for qualifying companies.

Responsible Endowments Coalition: Fosters social and environmental change and promotes corporate reform through university endowments by educating and empowering a diverse community of university members and allies.

✂ Indicates a grant from the RSF Seed Fund, which provides small gifts (between \$1,000 and \$5,000) to seed new initiatives that fall within RSF's mission statement. Successful grantees offer innovative solutions to furthering the field of social finance, or address issues in one of our three focus areas (Food & Agriculture, Education & the Arts, and Ecological Stewardship). Grantees demonstrate capacity for growth, and plans to reach financial independence.



Donor Advised Fund Investment Portfolios

By Elizabeth Ü, Manager, Strategic Development

In the fall of 2007, RSF identified its DAF investments as a significantly under-tapped opportunity to increase our social impact as an organization. Careful improvements to the investment strategy for these funds would both amplify the beneficial effects of the projects we chose to invest in and set an example that other impact-oriented investors—both individual and institutional—might follow. The challenge of 2008 then was to seek out more direct investments, by going beyond the social screening of publicly-traded equities and bonds.

While the existing system—designed in 2005 with the help of experts in socially responsible investing, including Trillium Asset Management, Walden Asset Management, Rockefeller & Co. Inc., and Boston Common—had already set a new standard within the field of socially responsible investing, we sought even greater alignment with our mission. In January 2008, the RSF investment advisory group reviewed three new investment models for the DAF program. They unanimously chose the most ambitious one, which called for a complete overhaul of all three of the investment portfolios. The goal: identify and invest in the most direct opportunities available to support innovative funds, institutions, and projects, reducing unnecessary levels of intermediation, while also meeting diversification, risk, and return criteria.


The current DAF Investment Portfolios, crafted over the course of 2008, are much closer to reflecting the diversity, financial performance, and social impact profiles we intended. We continue to seek more opportunities to increase our impact, especially within the Transformation Portfolio, which is still

in development. This is part of our commitment to leadership in the field of social finance. To learn more, please visit www.rsfsocialfinance.org/daf.

Liquidity Portfolio (formerly “Cash”). Previously invested in money market accounts and commercial paper, we moved all of the assets into deposits at the highest-performing community development and environmental banks in the country. This portfolio also includes community development bonds, green bonds, and other projects that promote social and environmental renewal.

Impact Portfolio (formerly “Equities”). This portfolio, diversified across asset classes, consists of investments chosen through meticulous research of management’s environmental, social, and financial activities, combined with active engagement with fund managers and participation on shareholder calls. This unique, integrated approach allows us to fully understand and assess the long-term social and financial sustainability of each company or fund in ways that are not possible when considering social aspects separately from financial performance.

Transformation Portfolio. Donor advisors have already committed \$400,000 toward the \$1 million necessary to formally launch this portfolio, which has been designed from scratch to achieve exceptional social impact. When fully operational, this groundbreaking portfolio will consist of direct venture and debt investments in projects that seek fundamentally to solve pressing social and environmental problems.

To open a Donor Advised Fund or to change your DAF allocation, please contact Kelley Buhles at 415.561.6152 or kelley.buhles@rsfsocialfinance.org. 

2008 RSF Consolidated Financial Highlights

By Gary Schick, CFO & COO

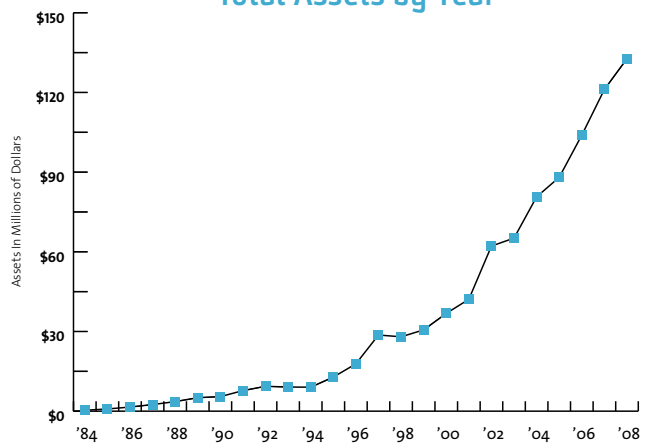
RSF's 1984 Annual Report indicates work with just 24 clients and a little over \$356,600 in assets, as compared with 25 years later: RSF now works with 1160 clients and stewards \$132.7 million in total assets. By conservatively managing these assets and focusing on relationships with its clients, RSF has been able to maintain a strong financial position through all business cycles.

During 2008, RSF was proactive in monitoring its risk management program to ensure protection of assets, including the quality of its loan assets and implementation of a cash strategy to maintain higher cash balances with protection through U.S. government insured or guarantee programs. We also counseled clients to review their cash account structure to ensure government protection and to review the strength of their insurance carriers.

Even with the credit crisis and economic recession, RSF was able to achieve most of its 2008 goals. Compared to 2007, total assets increased 10%, loan assets increased 40%, investor fund support increased 9%, loan quality remains strong as there were zero loan write downs, net interest margins were maintained at 4.22%, gifts received increased 83%, grants made increased 111%, and the operating budget was balanced with a higher % of earned revenue from programs. Our professionally-managed mission related investment portfolios (part of the DAF program, see page 12) were impacted by the stock market downturn during 2008. We incurred a net investment loss of \$12.3 million, from primarily unrealized losses, which caused an overall decline of net assets of \$8.9 million. Still, these investments achieved our

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Total Assets by Year



financial goal: to meet or perform better than the market benchmarks.

RSF has a strong current ratio of 1.41 and is well capitalized with an 8.42% ratio of net assets (i.e. equity) to total assets. The debt ratio increased to 65% as we drew down on a line of credit to provide needed financing to clients. This line of credit has been paid down by 50% during the first quarter of 2009. RSF

proactively increased its loan loss provision to \$552,000 which is now .73% of its loan portfolio assets. During 2009, to maintain a high quality loan portfolio, our focus will be to work with current loan clients to help them through the recession and then to add new loan business. We have developed an investor fund coverage ratio that represents how much in liquid assets, through capital reserves and client guarantee accounts,

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are available to meet unusual investor redemption requests. At 12/31/08, this ratio was 17.31% which represents over \$10 million in additional security for holders of investment fund notes.

We expect the economy to remain challenging in 2009. However, RSF is positioned to be financially sustainable

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and to help our clients make it through these tough times. Our long history, focus on mission, and long-term client relationships, combined with conservative lending practices and skilled and experienced board and staff, all contribute to RSF's stability. Inherent in our planning for the best possible financial outcome is a strongly anticipatory approach. This guides development of our comprehensive contingency plans and maintenance of a strong balance sheet. 

RSF 2008 Consolidated Highlights

	Unaudited 12/31/08	Audited 12/31/07	Audited 12/31/06
Number of Client Accounts	1160	1156	1101
Number of Staff	27	26	22
Cash and Cash Equivalents	\$5,052,985	\$1,148,270	\$2,814,097
Investments	51,360,031	65,605,389	65,206,497
Loans Receivable - Borrower Funds, net	75,883,442	54,096,255	35,466,252
Other Assets	422,665	286,879	436,539
Total Assets	\$132,719,123	\$121,136,793	\$103,923,385
Notes Payable - Investor Funds	\$65,163,353	\$59,657,455	\$49,207,498
Notes Payable - Institutions	19,774,350	5,000,301	4,000,000
Other Liabilities	1,040,310	772,224	529,688
Total Liabilities	85,978,013	65,429,980	53,737,186
Total Net Assets	46,741,110	55,706,813	50,186,199
Total Liabilities and Net Assets	\$132,719,123	\$121,136,793	\$103,923,385
Interest Income - Borrower Funds	\$4,865,378	\$3,616,182	\$2,674,154
Investment Income (Loss); net	(12,348,241)	4,412,959	3,673,075
Gifts and Contributions	18,543,003	10,106,128	14,189,123
Fee Income	426,392	462,216	338,749
Total Revenue	\$11,486,532	\$18,597,485	\$20,875,101
Interest Expense	2,120,715	2,917,430	2,222,414
Grants Made	13,809,558	6,550,555	8,958,632
Program Expenses	3,031,819	2,680,601	3,710,396
Support Expenses	1,490,143	928,285	1,433,189
Total Expenses	\$20,452,235	\$13,076,871	\$16,324,631
Change in Net Assets	(\$8,965,703)	\$5,520,614	\$4,550,470
Current Ratio	1.41	1.83	2.27
Capital Ratio*	8.42%	12.43%	13.54%
Debt Ratio	64.78%	54.01%	51.71%
Investor Fund Coverage Ratio	17.31%	20.52%	23.05%
Loan Loss Provision Ratio	0.73%	0.66%	1.01%
Earned Revenue Ratio - Operating Fund	78.32%	79.36%	61.57%

* Excludes Philanthropic Services Activity

Assessing RSF's Innovations

By John Bloom and Richard Landry

RSF is dedicated to using the tools of social finance to bring about positive, real-world change. But how do we know that our investing, lending, and giving activities are bringing about the social innovation and impact that we and our stakeholders—our investors, donors, social enterprise clients, and partners—are seeking? Moreover, how do we create the reflective tools that help us learn from the results of our work and improve them, so that over time we can generate increasing social returns from the financial resources we deploy?

These questions guided the launch last year of several key initiatives to support and grow the social finance movement. As we reflected on our ultimate goal—to create a new financial system to sustain a global network of local, place-based economies—it became abundantly clear that we had to base our success criteria on something more fundamental than immediate financial and social returns. As current events amply demonstrate, financial innovation requires a grounding in a set of explicit, shared, social and ethical values in order to be truly effective and sustainable.

In close dialogue with our stakeholders, we developed a social impact framework that clearly identifies how RSF's core social and ethical values guide the pursuit of our mission and objectives. Based on the Harvard Business School Balanced Scorecard methodology, this approach provides a roadmap for instilling explicit, values-based strategies at every layer of the organization, from day-to-day business execution to our contribution to the field of social finance.

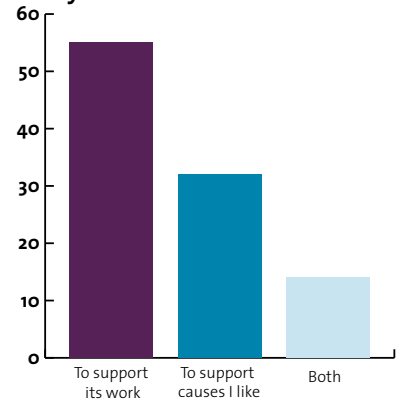
At each layer, values are expressed through strategies and initiatives that can be measured and improved over time. For example, in selecting loan clients, the overriding strategy is to fund innovative projects in Food & Agriculture, Education & the Arts, and Ecological Stewardship; and to support them through innovative financial vehicles that contribute to the development of local, place-based economies. This strategic thrust has led to the recent launch of RSF's Mezzanine Fund, PRI Funds, and Focus Area Funds.

STAKEHOLDERS STRONGLY SUPPORT RSF'S VALUE-BASED STRATEGY

"I like how RSF is approaching investing and the money system in a way that is different from anything else out there."

"The mission is to get at the very idea of what money is and what role it should play in a healthy society."

What is the main reason you are involved with RSF?



We will measure the success of these funds in building local, sustainable, values-aligned institutions.

For a values-based network to succeed, all members of the network must share in its values. So as a next step, we will be testing and implementing an evaluation tool that our loan clients can use to develop their own proprietary values framework—establishing a shared basis for assessing the social impact of our network. We will issue a report to stakeholders on the results of this evaluation by the end of 2009. Ultimately, our goal is to establish a peer-driven review program that helps our loan clients enter into dialogue with us and each other about the best strategies for achieving sustainable social innovation. ↻

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JOHN BLOOM is Director of Organizational Culture at RSF.

Join Us at These Events

Investors' Circle Spring Conference (RSF-sponsored)
 4/19 – 4/21
 San Francisco, California
www.investorscircle.net

Social Venture Network (RSF-sponsored)
 4/23 – 4/26
 Itasca, Illinois
www.svn.org

Kuleana Business Conference Tradeshow
 5/6
 Kona, Hawaii
www.kona-kohala.com/kuleana-business-conference-tr.asp

Business Alliance for Local Living Economies (RSF-sponsored)
 5/21 – 5/23
 Denver, Colorado
www.livingeconomies.org

Sustainable Agriculture & Food Systems Funders Annual Forum
 6/23- 6/26
 Greensboro, North Carolina
www.safsf.org





This event includes an RSF speaker.

RSF Social Finance is pleased to count New Leaf Paper among its borrowers.

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