Retail Impact Investing

# A GUIDEBOOK FOR CANADIAN CREDIT UNIONS

PURPOSE Capital

CCUA
Canadian Credit Union Association

# FOREWORD

Impact investing has the potential to be a growth opportunity and differentiator for the Canadian credit union sector.

Today, impact investment options exist primarily for institutional and accredited investors. The opportunities for everyday investors to generate a return, while generating positive impact, are limited – this, despite evidence of market interest led by millennials and others.

Credit unions are well positioned to tap into this opportunity. A core part of their mission is to ensure the financial, social and environmental well-being of the communities they serve: a mission that is aligned with the principles of impact investing.

We see this Guidebook as a tangible resource to help credit unions address a marketplace gap and empower members to make investments that will have demonstrable, positive impacts in their communities. The Guidebook offers credit unions of all sizes and at all stages of their social responsibility journey actionable ideas of how to create and deploy retail impact investment products for their members.

The guide also points to recommendations that the credit union sector as a whole can undertake. The Canadian Credit Union Association (CCUA) is committed to working with credit unions to explore how these recommendations can be advanced. We welcome your ideas and feedback - contact us at www.impactinvesting.ca/contact.

CCUA is proud to have partnered with Purpose Capital, Employment and Social Development Canada, as well as a number of interested credit unions, to develop and share the research in this Guidebook.

We want to extend our gratitude to Affinity Credit Union, Alterna Savings and Credit Union, Assiniboine Credit Union, Conexus Credit Union, DUCA Financial Services Credit Union, Libro Credit Union, Mennonite Savings & Credit Union, Meridian Credit Union, Servus Credit Union and Vancity Credit Union for their support and contribution to the development of this Guidebook.

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# GLOSSARY

**ACCREDITED INVESTORS**
A class of investors determined under securities regulations to have sufficient knowledge and level of sophistication to merit reduced restrictions on their investment activities.

**COMMUNITY BONDS**
Interest-bearing loans that allow organizations to leverage its community, including individual investors, to raise capital for community projects.

**COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS**
Private financial institutions, including banks, credit unions, development loan funds and development venture capital funds, that are dedicated to delivering responsible and affordable loans to disadvantaged persons and communities.

**CROWDFUNDING**
An approach to raising donations or investment capital from private individuals or organizations through on-line platforms.

**GUARANTEE**
A type of first-loss capital that is used to improve the risk-return profile of an investment for other investors by guaranteeing the principal investment, up to a pre-determined amount, in the event of a loss. A guarantee protects investors against a capital loss.

**IMPACT INVESTMENTS**
Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.

**IMPACT RISK**
The risk that an institution's investments might alienate key stakeholders and/or compromise the values of the organization.

**INSTITUTIONAL INVESTORS**
Professional asset management firms that invest financial assets on behalf of other individuals or organizations for a fee.

**INVESTMENT NOTE**
Similar to bonds, with a specified term and face value, but can have more variability on terms and how they are sold.

**RETAIL INVESTORS**
Individual investors that purchase investment products for their own personal accounts and that do not meet net worth requirements to qualify as accredited investors.

**SOCIAL FINANCE**
An approach to mobilizing private capital that delivers asocial dividend and an economic return to achieve social and environmental goals.

**SOCIALLY RESPONSIBLE INVESTMENT**
An investment strategy that uses negative screens and shareholder advocacy to align portfolio investments to specific values.

# EXECUTIVE SUMMARY: RETAIL IMPACT INVESTING GUIDEBOOK FOR CREDIT UNIONS

As impact investing gains traction globally and across Canada, retail impact investing presents an emerging and untapped set of opportunities for credit unions. Credit unions are well-positioned to use retail impact investing to differentiate themselves from other financial institutions, to provide innovative product opportunities for their existing members, to attract new members seeking to integrate social considerations in investment decisions, and to strengthen their link to their mission.

## The Opportunity for Credit Unions

Over the last decade, impact investing—a targeted approach to investment in companies, organizations, and funds with the intention of generating social and/or environmental impacts alongside a financial return—has gained traction within the financial sector. Market surveys have shown steady growth in impact investing using multiple indicators, including assets under management, investor interest and activity, product availability across asset classes, and demand for impact investment. However, many of the opportunities remain accessible only to accredited and institutional investors.

Retail impact investment aims to make impact investment products available to the average individual investor. Driven by growing demand and shifting preferences among retail investor segments – including women and Millennials – there is increased interest in integrating social or environmental values within investment decisions. While several mainstream financial institutions are now developing custom strategies and products in this area, these have been limited in terms of their availability for the majority of retail investors.

Credit unions have an opportunity to play a leadership role in the development of the retail impact investment market in ways that other financial institutions do not. Impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion, and community commitment have formed their foundation and are reflected in their missions, strategies, and product offerings. Canadian credit unions have played an important role in providing their members with access to socially responsible investment (SRI) opportunities, and impact investing can be seen as a natural extension of this commitment to values alignment.

Despite the opportunity posed by retail impact investing, the majority of credit unions have not been substantially engaged in retail product development. Credit unions face a number of challenges, including a lack of knowledge, high transaction costs, and restrictive regulations.

The guidebook provides a ***roadmap*** for credit unions seeking to develop retail impact investing products. The specific objectives for this guidebook are as follows:

- Introduce the need and rationale for retail impact investing for credit unions;
- Profile retail impact investment products from Canada and globally;
- Review the key elements of the product development process for a retail impact product;
- Analyze the strategies, considerations, best practices and enabling conditions for success;
- Provide resources that credit unions can use in their product development efforts; and
- Identify a set of priorities and actions to catalyze retail impact investing for credit unions.

## Retail Impact Investing Case Studies

To better understand what is required to develop a retail impact investing product, the guidebook includes six case studies of established retail impact investment products from Canada and the US. Each case study describes the motivations, product development process, results, and lessons.

**OIKOCREDIT GLOBAL IMPACT GIC:** The Oikocredit Global Impact GIC is the result of a partnership between the Mennonite Savings and Credit Union (MSCU) and Oikocredit Canada. It allows members to invest funds in a GIC, and in turn, MSCU purchases shares in Oikocredit International, to promote sustainable development and microfinance in developing countries. Investments are guaranteed by the Deposit Insurance Corporation of Ontario (DICO) and are eligible for registered accounts.

**RESILIENT CAPITAL PROGRAM:** The Resilient Capital Program (RCP) from Vancity Credit Union allows retail investors to invest in a long-term deposit product that is used to make debt and equity investments in social enterprises and blended-value businesses. Investors choose between five-, six-, and seven-year term deposits, and receive steady and predictable returns. These term deposits are fully insured by the Credit Union Deposit Insurance Corporation, and the term deposits are not directly linked to the potential gains or losses in the underlying investments.

**COMMUNITY INVESTMENT NOTE - CALVERT FOUNDATION:** The Calvert Foundation's Community Investment Note is a fixed-income product that supports a diversified portfolio of social sector organizations and initiatives in the US and globally. It has a minimum investment of $20 online or $1,000 through a brokerage account or direct investment. The Calvert Foundation currently offers fifteen different Note investment options to align with the varied social impact interests of their investors.

**JUBILEE FUND INVESTMENT CERTIFICATE:** The Jubilee Fund Investment Certificate (JIC) is a fixed-term deposit product developed as a partnership between the Jubilee Fund (JF) and the Assiniboine Credit Union (ACU). The JICs are used to provide loan guarantees or bridge financing for community economic development projects. The Jubilee Fund focuses on affordable housing, small business and community projects.

**COMMUNITY BOND: CENTRE FOR SOCIAL INNOVATION:** The community bond was issued by the Centre for Social Innovation (CSI) to finance the purchase of a building in Toronto as part of its co-working model. The retail product is the second community bond issuance by the CSI, following its initial issuance in 2010. The Community Bond is an asset-backed debt instrument, and can be purchased through self-directed registered accounts.

**RSF SOCIAL FINANCE INVESTMENT NOTE:** The RSF Social Investment Fund (SIF) pools investments to finance non-profit organizations and social enterprises. The SIF Note is a three-month investment product that provides retail investors with an opportunity to put their dollars into a diversified, direct loan fund doing impactful work. Investors earn monthly compound interest that is paid upon maturity. RSF focuses its efforts in the areas of food and agriculture, education, the arts, and ecological stewardship.

## A Roadmap for Retail Impact Investing Product Development

This roadmap translates the product development process into a set of practical strategies and actions for developing and implementing a retail impact investing product. It is intended to be an accessible framework for credit union staff to work through the considerations from planning to post-launch. This summary below describes selected themes and questions that are elaborated on in the guidebook.

| PLANNING | PRODUCT DESIGN | PRE-LAUNCH | PRODUCT LAUNCH | POST-LAUNCH |
|---|---|---|---|---|
| 1. Understanding Motivations and Business Drivers<br>2. Understanding the Landscape for Retail Impact Investment<br>3. Exploring External Partnerships | 1. Validating Investor Demand<br>2. Assessing Impact Opportunities<br>3. Determining Product Structure<br>4. Gaining Approval | 1. Coordinating Internal Processes<br>2. Developing a Marketing Strategy<br>3. Developing a Sales Strategy | 1. Issue Press Release to Targeted Markets<br>2. Convene Events to Provide Detailed Information | 1. Investor Engagement<br>2. Community Partner Engagement<br>3. Reporting |

1. **PLANNING**
   Planning is defined as the set of activities and processes that enable a credit union to be ready to explore and to embrace the concept of a retail impact investing product.

   a. **Understanding Motivations and Business Drivers**
   Credit unions should assess motivations, objectives and values around creating a new retail product. This includes an understanding of how the product aligns with short, medium, and long-term goals; and the financial and impact expectations.

   b. **Understanding the Landscape for Retail Impact Investment**
   Identify other relevant or emerging products, review trends and issues that may point to unmet needs or unrealized opportunities, and identify specific questions that will need to be addressed in the formal planning phases.

   c. **Exploring External Partnerships**
   Relationships with partner organizations can help to identify potential financing gaps or needs, opportunities within specific sectors, or community-based groups or organizations that could represent a potential financing need.

2. **PRODUCT DESIGN**
   Product Design is defined as the process of collecting (external and internal) information and evidence that helps to build internal support and a business case for a proposed retail product.

   a. **Validating Investor Demand**
   While anecdotal evidence may suggest that members are interested in impact products, this must be further tested and validated through market research to assess their preferences and beliefs.

   b. **Assessing Impact Opportunities**
   Assessing the impact opportunity can take a number of forms, including in partnership with external partners, intermediary collaborations, or where the credit union may have access to its own pipeline of local impact investment opportunities.

   c. **Determining Product Structure**
   While many considerations for determining product structure are the same as those for developing conventional investment products, there are additional dimensions around financial, risk, regulator and impact measurement factors that should be addressed.

3. **PRE-LAUNCH**
   Pre-Launch is defined as the set of internal processes and activities that enable a credit union and its partner organizations to successfully develop and prepare to launch a product.

   a. **Coordinating Internal Processes**
   Successful strategies for internal coordination have included at least two components: securing executive level buy-in, and identifying champions. Another component is configuring internal systems for new products.

b. **Developing a Marketing Strategy**
Examples of potential strategies and actions for a marketing strategy have included the following: clearly identify the value proposition; clarify positioning of the product within broader product suite; and, identify potential target market segments.

c. **Developing a Sales Strategy**
While there are many elements of a sales strategy, key components include educating and engaging financial advisors, investment advisors and financial planners, and anticipating member questions and concerns.

4. **PRODUCT LAUNCH**
Product Launch refers to the set of activities that aid in the official introduction of a product to the investor market. This stage is typically the first time that external audiences (i.e., members) are exposed to the product.

a. **Issuing a Press Release**
To increase awareness of the product, issue a press release that is targeted at segments identified in the marketing strategy.

b. **Convene Events**
To reach targeted audiences and potential investors, consider hosting information sessions.

5. **POST-LAUNCH**
Post-Launch refers to the set of internal activities that evaluate the reception of a product with the investor and community partner audiences and its efficacy at upholding the credit union's own commitment to corporate social responsibility.

a. **Investor Engagement**
Investor engagement requires a deeper set of activities than a conventional marketing strategy. It requires building trust and alignment with investors, and can include constructing narratives to communicate impact.

b. **Community Engagement**
Community engagement is necessary to understand how the retail product is meeting needs of investees, and for validating impact reporting and identifying new potential community partners and investees.

c. **Reporting**
Credit unions should integrate the financial results and impact of the product into their reporting. Reporting is a core component of internal management and accountability, and can also allow the credit union to reflect on, and to improve, its future product development activities.

## Lessons from Successful Models

a. **Strong Alignment with Credit Union Objectives & Mission**
A clear set of motivations and objectives, and a strong linkage to the overall mission of the organization are critical. Each of the profiled organizations had clear, but somewhat different, motivations and objectives.

b. **Solid Rationale and Business Case**
Similar to other products, there needs to be a strong case for retail impact investment products among competing opportunities and demands for the credit union, including the engagement of existing members, new members, and mission alignment.

c. **Visible and Engaged Leadership from an Internal Champion**
Developing retail impact investment products requires a strong internal commitment and coordination, as well as a champion for the concept and its successful implementation.

d. **Strong Internal Coordination to Maximize Buy-In**
As retail impact investing is still a novel idea for many credit unions, it will require the buy-in of several departments, and it will require that staff work collaboratively on new challenges and opportunities.

## Priorities for Retail Impact Investing

### GENERATE AWARENESS AND ENGAGEMENT WITHIN THE CREDIT UNION SECTOR

1. **Share Information and Best Practices Among the Credit Union Sector**
The sector should commit to regularly updating the website [www.impactInvesting.ca] that was created for this guidebook to showcase the range of impact investing opportunities and best practices in product development.

2. **Review Product Development Approaches,and Share Tools and Templates**
Credit unions can use networks and platforms (e.g. CCUA, Centrals and other system partners) to share the specific approaches that they are taking to product development within their respective institutions.

### VALIDATE MEMBER DEMAND, AND STRENGTHEN THE ABILITY FOR CREDIT UNIONS TO RESPOND

3. **Validate Existing or Latent Member Demand Through Research and Campaigns**
Credit unions – individually or collectively – can commission targeted research on the demand

and preferences of existing members related to impact investing, as well as assess interest from potential members.

4. **Strengthen Staff Capacity and Education Through Professional Development**
   Credit unions can embed impact investing as a component of professional development objectives, either through in-house materials, or suggesting the topic to training providers.

### DEVELOP SHARED PLATFORMS TO CATALYZE PRODUCT DEVELOPMENT

5. **Explore the Feasibility of Collectively Negotiating a Partnership with an Established Product Issuer**
   To help reduce transaction and monitoring costs, credit unions could collectively negotiate a product partnership with an established product issuer.
6. **Explore the Feasibility of a National Thematic Product Accessible to Retail Investors**
   Credit unions could engage with Centrals and system affiliates to assess whether they can create a shared, scaled product in an established impact sector (such as affordable housing or renewable energy).

### STRENGTHEN THE ENABLING ENVIRONMENT FOR SOCIAL FINANCE

7. **Collaborate with Social Finance Intermediaries to Build a Pipeline of Qualified Opportunities**
   Credit unions can partner with local and regional intermediaries (such as community loan funds, community foundations, and incubators) to actively identify and vet potential opportunities.
8. **Build on Regional or National Policy, Regulatory and Advocacy Initiatives that Promote Social Finance**
   Work with networks that are actively advocating for improved legal, regulatory and policy conditions, and engage with appropriate provincial and federal regulators.

# CHAPTER 1 INTRODUCTION

## Context

Over the last decade, impact investing—a targeted approach to investment in companies, organizations, and funds with the intention of generating social and/or environmental impacts alongside a financial return—has gained interest and traction within the financial sector. Many leading global financial institutions are actively engaged as investors, lenders, and wealth managers. Impact investment funds are increasing in numbers and their track records are showing early evidence of realizing positive financial returns and social impact.[1] Governments are also exploring the use of impact investing to address pressing social and environmental challenges, such as affordable housing and climate change.[2]

Globally, the impact investing sector is estimated to have a market size of USD $60 billion, with steady growth projected over the coming years.[3] In Canada, the market is estimated at between CAD $2 billion and $4 billion, and it is expected to show continued growth across the country. Impact investing opportunities have primarily been accessible to institutional and accredited investors. While there is some evidence of growing demand among individual investors for investment products that integrate social and/or environmental considerations, this has yet to translate into customized strategies and investment opportunities for retail investors on a large scale.[4]

Given the intermediary role that credit unions play in the economy and the deep relationships they have within their communities, credit unions are well-positioned to catalyze the market for retail impact investors, while at the same time furthering their own contribution to fostering more sustainable communities.[5] Collectively, credit unions are already considered leaders in the impact investing space in Canada, with $698.2 million in assets invested in impact, or 17% of the Canadian total.[6] This places them as the 3rd largest organizational category in the market place. Credit unions engage in this sector by actively seeking opportunities to direct capital into areas that align with their values of community engagement and sustainable development. Credit unions themselves project a 60% increase in the value of their impact investing products by 2018.[7] However, while many credit unions are already well-established players in the impact investing sector, most do not yet offer targeted impact investment products for retail investors.

Credit unions that have the foresight to tap into this demand for new retail impact investment products will likely benefit from increased business with existing members, an expanding market share, and a stronger brand recognition within their communities. Beyond the benefits for individual credit unions, increasing the opportunities for retail investors to engage in impact investment can lead to a more resilient investment culture and ultimately, a more stable financial system.[8] Retail impact investment products may also generate interest from individual investors to expand the market for impact investment opportunities into their institutionally managed assets such as their pensions, where the majority of individuals' wealth tends to be held.[9]

## Objectives

This guidebook highlights an opportunity for credit unions to engage further in the impact investing sector by addressing a gap that exists in the retail impact investing market in Canada. The guidebook provides a ***roadmap*** for credit unions seeking to create and to deploy their own retail impact investing products targeted at current or prospective members who wish to receive a financial return, while at the same time generating a targeted and measurable positive impact for local or global communities.

The specific objectives for this guidebook are as follows:

- Introduce the need and rationale for retail impact investing for credit unions;
- Identify broad trends and evidence around the potential for retail impact investing;
- Profile retail impact investment products from Canada and globally;
- Review the key elements of the product development process for a retail impact product;
- Analyze the strategies, considerations, best practices and enabling conditions for success;
- Provide resources that credit unions can use in their product development efforts; and
- Identify a set of priorities and actions to catalyze retail impact investing for credit unions.

The primary audience for this guidebook is the Canadian credit union sector. Some credit unions may already have the capacity and infrastructure to explore retail impact investing product development independently, which this guidebook takes into consideration. The guidebook provides a foundation for those new to the concept, providing best practices and examples, but also offers information for staff members within all credit union departments, including senior management teams and board members. We also believe that this guidebook will be useful to the social finance sector more broadly, including product issuers and distributors, and social finance intermediaries.

## Report Structure

**CHAPTER 2** begins with an overview of the impact investment sector in Canada and globally, drawing on broad investment trends and activities to assess market opportunities. The section defines retail impact investment for the purposes of this report.

**CHAPTER 3** explains the opportunities and challenges facing credit unions for retail impact investing.

**CHAPTER 4** profiles six Canadian and global retail impact investment products to identify unique lessons and implications for credit unions.

**CHAPTER 5** elaborates on the five stages of the product development process for a retail impact investment product: planning, product development, pre-launch, product launch, and post-launch. For each stage, the key activities, challenges and success factors are examined.

**CHAPTER 6** distills the key findings and lessons into a set of actionable strategies and guidance for individual credit unions. The chapter also provides a set of priorities and actions to encourage the growth of retail impact investing in Canada.

# CHAPTER 2
# DEFINING RETAIL IMPACT INVESTING

## Impact Investing

Impact investing exists within a broader continuum of approaches (commonly referred to as 'social finance') that can be used to generate positive social and/or environmental impacts.

| TRADITIONAL | RESPONSIBLE INVESTING (RI) | SOCIALLY RESPONSIBLE INVESTING (RI) | THEMATIC | IMPACT-FIRST | VENTURE PHILANTHROPY |
|---|---|---|---|---|---|
| COMPETITIVE RETURNS | | | | | |
| | ESG RISK MANAGEMENT | | | | |
| | | HIGH IMPACT SOLUTIONS | | | |
| Limited or no focus on ESG factors of underlying investment analysis and execution. | ESG risks integrated into analysis of all holdings, as a component of financial risk management. Shareholder engagement is used to influence behaviour of holdings. | Negative and positive screening of ESG risks is used to align a portfolio to specific values. Shareholder engagement is used to influence behaviour of holdings. | Focus on one or more issue areas where social or environmental need creates commercial growth opportunity for market-rate returns. | Focus on one or more issue areas where social or environmental need may require some financial trade-off. | Social enterprise funding in a variety of forms, with a range of return possibilities. Investor involvement/support is common. |

Source: Purpose Capital adaptation of Bridges Venture Research (2012). The Power of Advice in the UK Sustainable Impact Investment Market. Available at: http://www.bridgesventures.com/links-research

The most commonly understood and used approach associated with social finance is socially responsible investing (SRI). Generally, the aim of SRI is to improve the performance of publicly-traded companies on a series of environmental, social and governance (ESG) indicators by using a combination of strategies, such as screening and shareholder advocacy. The Canadian SRI industry has shown steady growth over the past 10 years, particularly among institutional investors, and had a market size of over $1 trillion at the end of 2014.[10] Canadian credit unions have played a significant role in the SRI market. Vancity was the pioneer in ethical investing with the creation of the Ethical Growth Fund in 1986, and credit unions continue to be among the largest sellers of SRI mutual funds in Canada.[11]

Within the social finance spectrum, impact investing is an approach of making targeted and measurable investments in projects and businesses within specific sectors to deliver social or environmental benefits. While a standard definition of impact investing has not been adopted globally, the Global Impact Investment Network (GIIN) provides the most commonly used definition:

> "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."
>
> Global Impact Investment Network (GIIN)

The GIIN notes four core characteristics that distinguish impact investments from other social finance strategies:

1. **Intentionality**
   The stated intent of the investor is to generate social and/or environmental impact through investments. These investments are made into enterprises and funds that expand access to critical goods and services, and/or generate positive impact through their operations.
2. **Investment with Return Expectations**
   Impact investments are expected to generate a financial return on capital and, at a minimum, a return of capital.
3. **Range of Return Expectations and Asset Classes**
   Impact investments generate returns that range from below-market to risk-adjusted market rates. Impact investments can be made across all asset classes.
4. **Impact Measurement**
   Impact investments have a commitment to measure and report the social and/or environmental performance and progress of underlying investments.

## Impact Investment Market Activity and Trends

While interest in impact investing continues to accelerate, estimates of the global market size vary. An annual survey conducted by JP Morgan in 2015 showed that globally, impact investors managed USD 60 billion as of 2014, and were expected to commit an additional USD 12.2 billion to impact investments in 2015.[12] This growth has been largely driven by increased capital commitments from foundations, development finance institutions, impact investment funds, family offices and by governments that are using their capital to achieve a blended financial and social return. Many of the world's largest financial institutions are engaged in or are actively exploring impact investing in a variety of ways, including through investing their own capital, or as stewards of capital from clients. Some mainstream financial institutions have provided customized strategies for high net worth individuals and families within private wealth management departments, and others are offering SRI products, and seeking to broaden their range of products to include options that integrate impact investing.

BOX 2.1: **GLOBAL IMPACT INVESTMENT TRENDS**
An annual survey conducted by JP Morgan and GIIN describes the trends for impact investors globally. In the latest survey, some notable trends included:

- Housing accounts for a largest proportion of impact investments, followed by microfinance, financial services (excluding microfinance), and energy.
- Just over half of total capital is invested through debt instruments, and a third is invested through private equity.
- Over 90% of currently-managed capital is invested in companies in the post-venture stage, with 28% allocated towards companies at the Growth Stage, 52% in Mature, Private companies, 11% in Mature, Publicly-traded companies, and only 9% committed to Seed/Start-up companies or Venture Stage businesses.

JP Morgan and GIIN: Eyes on the Horizon

Canada's impact investment market is anchored in a rich history of regional community economic development, notably in Québec. The Canadian impact investment market has been estimated to be between \$2 billion[13] to \$4 billion.[14] Market surveys have shown steady growth in impact investing using multiple indicators, including assets under management, investor interest and activity, product availability across asset classes, and demand for impact investment. Notable drivers of these trends include leadership from the private and community foundation sector, as well as activity among credit unions across the country.

## Financial Institutions

Canadian chartered banks have engaged in impact investing in a relatively limited manner compared to their international counterparts. However, as awareness among clients and staff increase, Canadian banks are beginning to explore opportunities to engage impact investing, primarily through internal market research, staff education, and early strategy development. For many banks, however, this activity remains anchored within the corporate social responsibility departments, with limited activity within wealth management and product development teams.

Some financial institutions that have not engaged in impact investing as investors have provided philanthropic grants to build the impact investing market through the sponsorship and development

BOX 2.2: **CANADIAN BANKS ENGAGED IN IMPACT INVESTING**

In 2012, RBC launched the Generator Fund, a $10m impact investment venture fund that was managed in-house to invest for-profit businesses tackling social or environmental challenges. RBC's broader commitment extends to supporting social entrepreneurs and market building.

In 2012, TD commissioned a white paper that explored the impact investment landscape in North America. The report looks at the different impact investing products across asset classes and sectors.[15]

of knowledge products and events, often with established partner organizations. Providing financial resources for market research and education has allowed these organizations to develop a higher level of awareness and comfort with the sector and to begin to develop a brand presence that they can leverage for other parts of their respective organizations.

BOX 2.3: **GLOBAL FINANCIAL INSTITUTIONS AND IMPACT INVESTING**

**JP Morgan's Commitment to Impact Investment**
JP Morgan has stated that it views impact investment as a business opportunity, and it has engaged in three ways:

- Investing its own capital in impact investment funds, which seek to improve the livelihoods of low-income and excluded populations;
- Building market-leading research as a public good, and;
- Using investment experience and research expertise to respond to demand from clients for impact investment solutions.

**MORGAN STANLEY AND THE INVESTING FOR IMPACT PLATFORM:** In 2012, Morgan Stanley launched its Investing for Impact Platform, which offers consumers a range of strategies that helps them invest in a manner that is consistent with their values and beliefs.

## Credit Unions

Credit unions have played a significant role in the development of SRI. The State of the Nation report suggests that "impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion and community commitment are reflected in their missions, strategies and product offerings."[16] The Responsible Investment Association (RIA) estimates that credit unions manage $698.2 million in impact investing assets, or 17% of the Canadian total.[17] Credit unions' deposit assets and operational revenues are used to invest in a wide range of impact investment opportunities, including international microfinance programs, microloans for newcomers to Canada, finance for affordable housing initiatives and debt-financing for non-profit organizations and community projects that may not qualify for financing at other financial institutions.

BOX 2.4: **EXAMPLES OF IMPACT INVESTMENT AT CREDIT UNIONS**

Credit unions and *caisses populaires* across Canada are actively engaged in impact investment. Examples are highlighted below to demonstrate the deep history (e.g., Desjardins) and breadth (e.g., Vancity) of this commitment, as well as the role that credit unions are playing in supporting innovative impact investment models (e.g., Conexus Credit Union, Assiniboine Credit Union, Libro Credit Union, OMISTA Credit Union and Consolidated Credit Union and Affinity):

- **Desjardins' caisses populaires** provide community organizations, social enterprises with access to loans, equity financing, and variety of other financing products for development capital.
- **Vancity Credit Union** tracks its commercial loan portfolio and investment portfolio for impact. It is estimated that approximately 44% of the credit union's new loans are made to community impact businesses or sectors.[18]
- **Conexus Credit Union invests in Canada's first Social Impact Bond:** In 2014, Conexus Credit Union invested $500,000 in the first social impact bond (SIB) in Canada. The SIB finances a program for single mothers with young children and who are at risk of needing Child and Family Services, with affordable housing and support.
- **Assiniboine Credit Union, Libro Credit Union, OMISTA Credit Union and Consolidated Credit Union have** partnered with local community organizations in their area to help new Canadians gain recognition for their credentials obtained in their home countries. As of March 2015, these credit unions had made more than 330 government-backed loans to skilled new Canadians who require financing to pursue certification or training to work in their trades or professions in Canada.
- **Affinity Credit Union** launched the Business for Good Social Venture Challenge, a crowdfunding competition between non-profit and charitable organizations. Members of the credit union voted via the crowdfunding platform for the social enterprise of their preference to receive the $50,000 prize money.

## Retail Impact Investment

Retail investors are individuals who purchase investment products to achieve their personal financial objectives. Retail investors can be contrasted with institutional investors (e.g., pension funds) that make investment decisions on behalf of others based on a fiduciary relationship. Retail investors make investment decisions that primarily concern themselves and participate directly in the investment process creating a direct connection between their personal savings and the positive effects that these could have on their communities.

Retail investors can also be contrasted with individual accredited investors based on net worth and restrictions on the types of securities that they can invest in directly or through a broker. Accredited investors are assumed to have more sophisticated financial knowledge and ability to assess and take risk, presumably commensurate with the amount of assets that they own. While these restrictions are intended to protect retail investors, they also limit the types of opportunities that are available to them. In most cases, these restrictions mean that many impact investment products are unavailable to retail investors.

Retail impact investment has gained traction since the global financial crisis, which some attribute to the growing lack of trust among retail investors in traditional financial products and institutions. But retail impact investment also has deeper roots. One of the earliest examples of retail impact investment is the Green Funds Scheme introduced in 1995 by the Dutch Government. The initiative provides a tax incentive to individuals that invest in funds that are managed by banks and that invest in environmentally sustainable projects. In 2001, the French Government introduced solidarity funds to corporate pension plan members, which allows individuals to invest up to 10% of their portfolio in impact opportunities.

Other established retail impact opportunities include Oikocredit and the Triodos Fair Share Fund. This guidebook profiles some retail products that have a long track record, such as the Calvert Foundation's Community Investment Note, launched in 1995, and the Jubilee Fund's Investment Certificate, launched in 2000.

More recently, technological advancements have contributed to extending the range of social investment opportunities. For example, online peer lending platforms and microfinance initiatives – such as Kiva, which administers microfinance loans in developing countries through microfinance partner institutions – allow retail investors to access a range of local and international opportunities.

For the investment industry as a whole, the Triodos Report, "Impact Investing for Everyone", suggests that retail impact investment has several benefits, including the following:

- Retail impact investing increases diversity within the market allowing for a wider range of customized and local investment approaches to emerge;
- Retail impact investing builds a more resilient investor culture, which means an investor is more practiced at understanding all aspects of an investment and better equipped to form judgments about individual financial and social interests; and
- Retail impact investing can stimulate long-term thinking, which is beneficial to the broader financial market.

> "Retail investing is much more directly participatory and meaningful than other forms of investment and ultimately recognizes a greater degree of humanity within investment relationships. For that reason, impact investments should evolve inclusively – ensuring that almost everyone has the possibility of interacting with entrepreneurial ideas and activities that benefit society and becomes a co-creator and participant in the most practical, direct way."
>
> Triodos Report: Impact Investing for Everyone

## Impact Investment Product Trends

Impact investment product availability continues to show steady growth globally in its targeted sectors, which include microfinance, affordable housing, renewable energy, and sustainable agriculture. As of early 2016, ImpactBase, a global database of impact investment funds, had over 380 active impact funds registered. Most of these funds were accessible only to institutional and accredited investors. [20] In 2014, a comprehensive market scan of the Canadian sector described almost 50 impact investment product opportunities; however, only a third of these were potentially accessible for retail investors.[21]

Driven by demand from high net worth clients[22], several mainstream financial institutions are currently developing custom strategies and providing access to impact investment products. These products can be made available through existing channels (e.g., advisors) or through new platforms, although to date there have been limited examples.

Retail impact investment products (for both retail and accredited investors) take many different forms and span across several asset classes. A list of retail impact investment products is provided in Appendix A.

BOX 2.5: **ETHIQUETTE**

Ethiquette is an independent web platform developed and managed by the Responsible Consumption Observatory of UQÀM's School of Management Sciences and Ellio. Launched in 2014, it is targeted at individual investors, and provides an interactive platform to explore all forms of responsible investment. In addition to reviewing responsible investment products and strategies, the site also provides guidance and insights for retail investors.

# CHAPTER 3 OPPORTUNITIES & CHALLENGES FOR RETAIL IMPACT INVESTING

## Opportunities for Retail Impact Investing

**SHIFTING PREFERENCES AMONG INVESTOR SEGMENTS:** Demographic trends reflect a shift in aggregate preferences among retail investors. Millennials and women – two investor segments that are highly coveted by financial institutions – have emerged as key target groups that are driving impact investing. A survey of individual investors by Morgan Stanley found that Millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes.[22] The same survey also found that female investors are nearly twice as likely as male investors to consider both the rate of financial return and positive impact when making an investment.[23]

**WEALTH TRANSFER DYNAMICS:** According to survey data, we are in the midst of an unprecedented generational wealth transfer among different investor cohorts. Baby boomers are expected to transfer upwards of $30 trillion over the next three decades to Millennials.[24] As noted earlier, these groups are displaying different preferences than their parents and grandparents around investment strategies. There are some data that suggests that this is true for high net worth Millennials – a survey by US Trust of high net worth investors found nearly two-thirds of Millennials own or employ impacting investing strategies.[25]

**PORTFOLIO DIVERSIFICATION AND UNCORRELATED ASSETS:** Impact investment is an approach to intentionally integrating social or environmental value creation as an objective, and to incorporate environmental, social and governance (ESG) and impact data to inform investment decisions. These factors have been shown to positively influence investment performance for investors and companies. Impact investments have also performed competitively in global markets, and based on data within private equity funds, have displayed strong performance.[26] There is some evidence that these investments are also uncorrelated to broader market trends, given that they have strong local and/or thematic focus that differ from conventional asset allocation strategies and investments.[27]

## The Opportunity for Credit Unions

Impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion, and community commitment have formed their foundation and are reflected in their missions, strategies, and product offerings. Moreover, credit unions have played a significant role in the development of socially responsible investment (SRI) and socially responsible mutual funds in Canada.[28] Similar to the market for SRI, credit unions have an opportunity to play a leadership role in the development of the retail impact investment market in ways that other financial institutions do not. The section below elaborates on why credit unions should consider playing a role in retail impact investment.

**HISTORY:** Credit unions have a long history of engaging in impact investment, even if it has not been communicated in this way. Credit unions are themselves an early model of social finance. Their origins in Canada in Alphonse Desjardins' caisse populaire de Lévis and the Antigonish movement in the Maritimes gave working people access to financial resources that were not available to them through the banks.[29]

**MISSION:** As co-operative financial institutions, credit unions are governed by seven internationally recognized co-operative principles, including "concern for community." Credit unions give expression to this principle by working to ensure the social and environmental well-being of their members alongside their financial well-being.

**ALIGNMENT WITH EXISTING ACTIVITY:** Credit unions work to positively impact the communities they serve by addressing issues that affect their members' well-being. For example, many credit unions provide microloans to underserved entrepreneurs or individuals as well as loans to businesses – including co-operatives and non-profits – that aim to help solve social and environmental problems. Credit unions themselves project a 60% increase in the value of their impact investing by 2018.[30] Impact investment is an expansion and enhancement of credit unions' existing role in developing the market for socially responsible investment. By providing their members the opportunity to invest in retail impact investing products, credit unions will continue to ensure that they remain at the forefront of values-based investing in Canada.

**OPPORTUNITY FOR GROWTH:** Research conducted by the Global Alliance for Banking on Values suggests that financial institutions that base their decisions for the greater good, individuals and society, as opposed to the maximization of profits, are outperforming their competitors in areas such as return on assets, growth in loans and deposits, and capital strength.[31] By making social finance a core part of their business model (which would include offering impact-driven products for individual members), credit unions will have an advantage over competitors. In particular, retail impact investment products can:

- **Increase Market Share**
  Some members that place money in credit unions do so intentionally, so that their capital will be redistributed to meeting community needs.[32] This desire to invest directly in their community indicates that some members are strongly invested in the positive growth and development of their local communities. By offering retail impact investment products, credit unions can increase the market share by attracting new members and increasing business with existing members.
- **Enhance Brand Awareness and Reputation**
  In general, credit unions that engage in sustainable and corporate social responsibility benefit from strengthened brand recognition and value.[33]
- **Increase Member Loyalty**
  Academic research suggests that values-oriented retail investors are more loyal to their mutual fund brokers and to their banks than conventional retail investors. Values-oriented investors invest a greater percentage of their total portfolio with a socially responsible bank than with competing conventional banks.[34]

To conclude, the opportunity that retail impact investing products present to credit unions can be central to their strategy in at least two ways:

First, if the credit union strategy includes an appeal to values, a concrete demonstration of those values is necessary. Impact investing products are fit for this task. Second, if the credit union strategy includes an appeal to Millennials, the credit union will likely have to have at least one impactful product, and preferably, an entire menu of impact products. Once again, impact investing products are fit for this task.

## Barriers to Retail Impact Investing

Despite the opportunity that retail impact investing presents to credit unions, the majority of credit union activity in this space is not available to their members, as impact investment at the individual level has been limited. The reason for this is that credit unions face a number of challenges to developing retail impact products, including:[35]

- **Lack of Knowledge within the Financial Sector**
  The social finance sector is not covered by mainstream media, nor is it prominent within traditional financial education. Within the financial sector, social finance is often used interchangeably – and incorrectly – with terms such as corporate social responsibility, SRI, and microfinance.[36] There is also evidence that a lack of advisor awareness is a bottleneck to mobilizing and employing social finance at a retail investor level.[37]
- **Lack of Investor Awareness of Social Finance Options**
  While there is now more interest in socially responsible investments, many retail investors are unaware of the product opportunities available around impact investing.[38] Compared to conventional – and even SRI products – impact investing options tend to be limited and often not visible to retail investors.
- **High Transaction Costs**
  Developing a new retail impact investment product requires viable investment opportunities in funds, organizations and projects. Costs for finding impact investment opportunities and conducting the due diligence are often high. Moreover, across the credit union sector, building the information technology infrastructure and coordinating across credit unions can put up barriers to the creation of system-wide products.
- **Restricted Distribution Channels**
  The lack of a distribution channels for retail impact products is an issue that applies to product issuers rather than individual credit unions (as the former would have the potential work with credit unions to distribute the products). However, this is a broader structural issue that has prevented impact investment products from achieving economies of scale.
- **Regulatory Barriers**
  There is a perception that there are significant legal and regulatory barriers to developing retail impact investment products, and particularly to enabling products to be qualified investments.[39] While there are some additional considerations for retail impact investment products, many of the

barriers tend to be similar to what is required for conventional product development.[40]

- **Capital Allocation Issues**
  For some products, such as those that would be funded directly from the credit union's balance sheet, there may be an issue with the credit union's ability to commit sufficient capital to the product. As with other products, capital ratio requirements should be reviewed regularly with senior management and the Board to ensure that they are sufficient.

The remaining chapters in this guidebook will identify strategies that individual credit unions and the sector more broadly can use to transcend these barriers. In particular, the guidebook provides a detailed roadmap that is reinforced by practical advice for credit unions interested in developing their own retail impact investment products. While values, strategic goals and culture vary across credit unions, the guidebook seeks to identify a broad set of lessons and recommendations that can be adapted to the unique context of each credit union.

# CHAPTER 4
# CASE STUDIES

To better understand what is required to develop a retail impact investing product, this chapter profiles four Canadian and two American products representing some of the most established retail impact investments.

### CANADIAN RETAIL IMPACT INVESTMENT PRODUCTS

1. The Oikocredit Global Impact Guaranteed Investment Certificate developed by Mennonite Savings and Credit Union (Ontario) and Oikocredit Canada
2. The Jubilee Fund Investment Certificate developed by the Jubilee Fund and Assiniboine Credit Union (Manitoba)
3. The Resilient Capital Program developed by Vancity Credit Union (British Columbia)
4. The Community Bond developed by the Centre for Social Innovation (Ontario)

### US RETAIL IMPACT INVESTMENT PRODUCTS

5. The Calvert Foundation's Community Investment Fund Note (United States)
6. The Rudolf Steiner Foundation's Social Finance Investment Fund Note (United States)

These products were selected among a broader range of retail impact investment products listed in Appendix A using the following criteria:

- **Relevance**
  Products that engage credit unions or attempt to engage credit unions or similar financial institutions in the development or distribution process. Products that have minimum investment requirements and are accessible to the average retail investor.
- **History**
  Products that have a long-term history and are able to provide insight into several aspects of the product development process.
- **Diversity**
  Products that expose readers to a diversity of structures, including geographic target, thematic sector, and asset class.

For each case study, we conducted a series of interviews with individuals involved in the product development process and deployment of the retail product. These interviews reflect diverse perspectives of employees in senior and functional roles.

The summary Table 4.1 provides a snapshot of each case study. Information is provided under four main categories: Product Structure, Product History, Financial Profile, and Impact Profile.

## Comparison of Case Studies

**TABLE 4.1**

| PRODUCT | Asset Class for Investor | Asset Class for Investee | Product History | Return Expectation | Minimum Investment | Term | Impact Thematic Profiles |
|---|---|---|---|---|---|---|---|
| **RESILIENT CAPITAL PROGRAM** | Cash (Term Deposit) | Debt/ Equity/ Mix | Launched in 2011 | 2-3% | $50,000 | 5,6,7 year terms | Aboriginal-owned enterprises, Affordable and Supportive Housing, Social Purpose Real Estate, Co-operative Businesses, Environment and Energy Efficiency, Local Food and Local Security, Arts and Culture |
| **OIKO CREDIT GLOBAL IMPACT GIC** | Cash (Guaranteed Investment Certificate) | Quasi Equity in Oikocredit, (generally debt for the investees) | Developed in 2014, Launched in 2015 | 1.30% (1 yr.) 1.60% (3 yr.) | $500 | 1 year minimum | Sustainable development in developing countries (Microfinance Cooperatives, Fair trade Organizations, Small to Medium-sized Enterprises, and Renewable Energy |
| **CENTRE FOR SOCIAL INNOVATION COMMUNITY BOND** | Debt | Debt/ Real Assets | Launched in 2015 (Second Community Bond) | 3-4.5% | $1,000 | 5 or 15 year term | Real Assets/Social Enterprise Development |
| **ASSINIBOINE AND JUBILEE INVESTMENT CERTIFICATE** | Debt | Debt | Launched in 2000 | 0-3% | $1,000 | 1 year | Affordable Housing, Small Business, Community Economic Development Projects |
| **CALVERT FOUNDATION COMMUNITY INVESTMENT FUND** | Debt | Debt | Launched in 1995 | 0-3% | $20 - online, $1000 as a direct investment or through a brokerage | 1-10 Years | Women, Place Based Investment, Elderly Care, India & Latin America (Diaspora Investments, Affordable Housing, Education, Fair-trade Microfinance, Small Business |
| **RSF SOCIAL FINANCE FUND NOTE** | Short Term Debt | Debt/Equity/ Grants | Launched in 2006 | 0.25% - 0.75% | $1,000 | 90 Days | Agriculture & Food, Education & Arts, Ecological Stewardship |

A comparative analysis of each product's characteristics across six categories is presented below to help readers distinguish which case studies may be most relevant for their needs.

**TABLE 4.2**

| | RESILIENT CAPITAL | OIKOCREDIT GLOBAL IMPACT GIC | CENTRE FOR SOCIAL INNOVATION | ASSINIBOINE | CALVERT FOUNDATION | RSF SOCIAL FINANCE |
|---|---|---|---|---|---|---|
| **Intake of Capital** | | | | | | |
| Partner Organization | | | | ✔ | | |
| Credit Union/Retail Impact Investment Organization | ✔ | ✔ | ✔ | | ✔ | |
| **Deployment of Capital** | | | | | | |
| Aggregated Pool | ✔ | | | | | |
| Managed as Part of a Portfolio | | | | | ✔ | ✔ |
| In Partnership with External Organization | | | | ✔ | | |
| External Organization Only | | ✔ | | | | |
| **Type of Financing Provided** | | | | | | |
| Debt | ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |
| Equity | ✔ | ✔ | | | ✔ | |
| **Risk Mitigation Strategies** | | | | | | |
| Loan Loss Reserve | ✔ | | | ✔ | | ✔ |
| Sub-Advisors | | | | | | |
| Deposit Insurance | ✔ | ✔ | | | | |
| **Distribution Capabilities** | | | | | | |
| Credit Union Only | ✔ | ✔ | | | | |
| Online | | | ✔ | ✔ | ✔ | ✔ |
| Brokerages | | | | | ✔ | |
| **Geography of Impact** | | | | | | |
| Canada | ✔ | | ✔ | ✔ | ✔ | ✔ |
| US | | | | | ✔ | ✔ |
| Global | | ✔ | | | ✔ | ✔ |

# OIKOCREDIT GLOBAL IMPACT GIC – MENNONITE SAVINGS CREDIT UNION

Mennonite Savings and Credit Union

## General Overview

**PRODUCT OVERVIEW:** The Oikocredit Global Impact Guaranteed Investment Certificate (GIC) provides investors with an opportunity to participate in global development finance through Oikocredit International. Investments in the Oikocredit Global Impact GIC are guaranteed by the Deposit Insurance Corporation of Ontario (DICO) and are eligible for non-registered investments and registered accounts in RRSPs, RRIFs, and TFSAs.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | INVESTMENT ATTRACTED |
|---|---|---|---|
| Global | Initial offer 1.3% on a 1-year GIC, current offer 1.6% on a 3-year GIC | $500 | As of November 2015, $3.9M |

**ORGANIZATION (CREDIT UNION) DESCRIPTION:** Mennonite Savings and Credit Union (MSCU) provides banking services to over 20,450 members in communities across southern Ontario. MSCU has more than $1 billion including off-book assets under administration, eight full-service branches, and five sub-locations.

**ORGANIZATION (PARTNER) DESCRIPTION:** Oikocredit Canada is the Canadian arm of Oikocredit International, a global cooperative and social investor providing loans and investments to partner organizations in low-income countries. Oikocredit International invests in microfinance, agriculture, cooperatives, fair trade organizations, and renewable energy. In September 2015, the organization had €808 million (CAD $1.25 billion) invested in about 800 partners across more than 60 countries. Oikocredit has been operating since 1975 and is considered one of the largest private investors in microfinance in the world. Oikocredit Canada is also supported by networks of volunteers across Canada. In 2015 in Ontario, Oikocredit volunteers were organized by the Oikocredit Canada Support Association. The mandate of the support association is to educate Canadians on the work of Oikocredit, and value of development finance.

**STRUCTURE:** MSCU member retail investors can invest funds in a GIC. MSCU purchases shares in Oikocredit International using its own funds that matches the principal amount that is deposited by investors. Oikocredit International uses the funds to make loans and investments in its partners for sustainable development and MSCU receives an annual dividend return on the shares. Members receive a guaranteed fixed interest rate of return on their investment.

**TARGET DEMOGRAPHIC:** The retail product is available to any individual or institutional investor in Ontario, who is a member of MSCU.

**IMPACT FOCUS:** Oikocredit International promotes sustainable development in developing countries by providing loans, capital, and technical support to microfinance institutions, cooperatives, fair trade organizations, small to medium-sized enterprises, and renewable energy projects. These organizations support entrepreneurs, create jobs, build communities, and provide access to commercial markets for farmers.

## Product Development

**PLANNING:** When the national director of Oikocredit Canada, Eugene Ellmen, was hired in 2013, one of his primary mandates was to develop a retail investment product. Among the ideas considered was a savings product linked to investments in Oikocredit. Oikocredit had developed a similar product with GLS Bank in Germany.

> "While Oikocredit is an internationally recognized institution with a sizeable asset base, we are not well known in Canada. So it takes time to build our brand awareness among the credit union sector, and to develop comfort with the idea of partnering for product development."
>
> Eugene Ellmen, Director, Oikocredit Canada

At an early stage, Mennonite Savings and Credit Union (MSCU) showed interest in the concept and felt that it fit well with its traditional product offerings in socially responsible investment. Oikocredit approached the Director of Investments at MSCU to explore interest. Subsequent discussions included the Vice-president of Marketing and the Stewardship in Action Advisor (corporate social responsibility/community engagement) who developed a short briefing document that responded to key questions from MSCU's senior management on a product partnership. This provided the gateway to move forward in the product development process. MSCU staff suggested that the timing for this product was opportune. Brent Zorgdrager, CEO of MSCU stated, "We knew anecdotally from talking to our financial advisors that there would be appetite for this type of product from our customers. It provides another option on the spectrum of values-based investment for a customer base that is socially-minded."

**PRODUCT DESIGN:** In order for the business case to be formally accepted, MSCU's Chief Executive Officer (CEO) and Board of Directors had to approve the general concept for the GIC product. Approval was gained through a three-step process:

1. **CEO Assessment**
   MSCU's CEO evaluated the concept for the retail product across three criteria:
   - Strength of the partner organization: track record, company management, financial performance, and impact performance.
   - Revenue potential: spread, dividend stream, and risk of investment write down.
   - Opportunity cost for credit union: the opportunity cost of funds/deposits diverted from regular loan transactions and the opportunity cost of investment diverted from other potential investments.
2. **Approval from Deposit Insurer**
   When satisfied with this assessment, the CEO had to gain approval from DICO. The key concept that was communicated to DICO was that it was *the credit union itself that was taking on the risk and not the retail investors*. The retail investors place funds in a term deposit that was not directly invested into Oikocredit International. MSCU supplies matching capital that would be invested into Oikocredit International directly. The decoupling of risk between the investor and the investment in Oikocredit International allowed the regulators to confirm the product qualified for deposit insurance.
3. **Approval from the Board of Directors**
   Due to the nature of the investment (unsecured risk capital), board approval was necessary. Once deposit insurance was approved, a request for approval was formally made during a regular board of directors meeting. The CEO and the Director of Investment Services presented the concept to the board, emphasizing the track record and history of Oikocredit International, the limitations of the risk involved, and the strong mission alignment. MSCU board members were already familiar with the concept of impact investing, and only required education on the specific design of the product. Also, the CEO and Director of Investment Services were able to leverage the knowledge of a board member who had previously served on the board of the Oikocredit Canada Central Support Association as an informed supporter. At the board meeting, approval was granted and a three-month timeline was outlined to launch. This relatively quick launch time was achievable because the product was an initiative led by the CEO of MSCU, Brent Zorgdrager: "Internally, it was an easy sell because the product was aligned with our values. Once we received the buy-in from senior leadership, it allowed our internal teams to come together pretty quickly to begin the planning towards launching the product."

**PRE-LAUNCH:** The Director of Investment Services, who acted as the project manager, engaged several internal teams—legal, privacy, finance, member services, and marketing/community engagement—together with Oikocredit Canada in executing the activities. Although the process below is presented sequentially, some activities were conducted concurrently.

1. **Obtaining a Legal Opinion**
   The legal team was engaged early in the development process to determine if there was alignment of the Oikocredit Global Impact GIC with the existing regulatory system. Legal expertise also provided advice on RRSP and TFSA eligibility.
2. **Tackling Privacy Issues**
   As part of their regular partnership arrangement, Oikocredit International mandated the sharing of investor information with their organization. As this was not regular practice for the credit union, the privacy team had to be engaged in order to construct an alternative data sharing agreement that still worked for Oikocredit International.
3. **Determining Internal Processes**
   Given that the product was structured as a GIC, the finance team largely used existing processes to place the product within their internal operational systems. A process was developed to manage the investment in Oikocredit International on a quarterly basis.

> "If you don't have the passion for what it is you're trying to accomplish, you're probably not going to be successful. There are a number of steps and potential challenges to work through—processes, relationships, due diligence—with significant effort involved. Being passionate about impact will serve you well as you work through the details."
>
> Brent Zorgdrager, CEO MSCU

4. **Onboarding Existing Oikocredit Investors**
   Oikocredit Canada Central (OCC) Support Association had existing Canadian investors that, due to securities regulations, could not remain invested with OCC. As most Oikocredit Canada investors did not live within MSCU's local area, MSCU Members Services created a process to enroll OCC members in the credit union. This process was complicated by coordinating activities across members, using multiple legal documents, all while protecting privacy of members.
5. **Deciding Term Length and Pricing**
   In consultation with MSCU's CFO, the CEO and Director of Investment Services decided on an initial offering of 12 months with a 1.3% rate of return. This offered members a low barrier to entry, encouraging members to try it. After a year, the term length was changed to a 3-year term with a 1.6% rate of return to maintain investments over a longer period and reduce administration costs.
6. **Developing a Marketing and Communication Strategy**
   As the primary target audience was existing credit union members and the rest of the elements of the product mirrored a traditional GIC, the marketing team decided to emphasize the international impact. Once the key message was developed, MSCU's team, including an in-house graphic designer, worked with Oikocredit teams to develop consistent marketing materials, which included brochures, one-page summary documents, and online content.
7. **Educating Staff**
   Using this marketing material, the investment team developed a strategy to educate all staff with particular attention to financial advisors and financial planners. Oikocredit Canada's national director was brought in to educate investment team staff (in branch and head office) on the mechanics and impact of the product. Information on the Oikocredit Global Impact GIC was also distributed on MSCU's intranet and staff bulletin boards within the office.

**LAUNCH:** The product was ready for launch in February of 2015. Oikocredit Canada and MSCU jointly issued a press release, and members of both organizations promoted the product at industry conferences and events. Brent Zorgdrager, CEO of MSCU, attributes success of the product launch to "MSCU's effectiveness at translating how this product was not so different from other GIC products we offer, but clearly different in terms of the product design, and how we explained it to members in terms of its risk and impact factors." Oikocredit also promoted the release with its press contacts, resulting in positive media coverage in *Now Magazine* in Toronto. Advertising space was also purchased in *Your Guide to Responsible Investing*, a regular supplemental magazine in *Investment Executive* and the Toronto edition of the *Globe and Mail*.

## The Mechanics

**STEP 1:** Any individual interested in the Oikocredit Global Impact GIC who is a member of MSCU can make a minimum $500 investment into the financial product.

**STEP 2:** Money from deposit investors is pooled internally within MSCU. On a quarterly basis, MSCU purchases shares in Oikocredit International equal to the amount of funds invested by GIC holders. MSCU's purchase in Oikocredit is limited to $10 million.

**STEP 3:** Oikocredit International pools funding from investors across the world and invests money through either debt or equity investments in partner organizations. Investments are made and repaid on customizable terms.

**STEP 4:** As Oikocredit investments are paid back, Oikocredit International provides MSCU with an appropriate return. Oikocredit produces an annual *Social Performance Report* for its investors, which includes detailed information on its social and environmental impacts. Eugene Ellmen, Director of Oikocredit Canada explains, "as a 40-year institution with an international track record, there is a strong commitment to social performance measurement. This can give credit unions confidence around the mission alignment, as well as reporting on the social impact to customers and for the credit union."

**STEP 5:** MSCU provides GIC investors with interest and principal at the end of the term unless deposit investors choose to renew the investment.

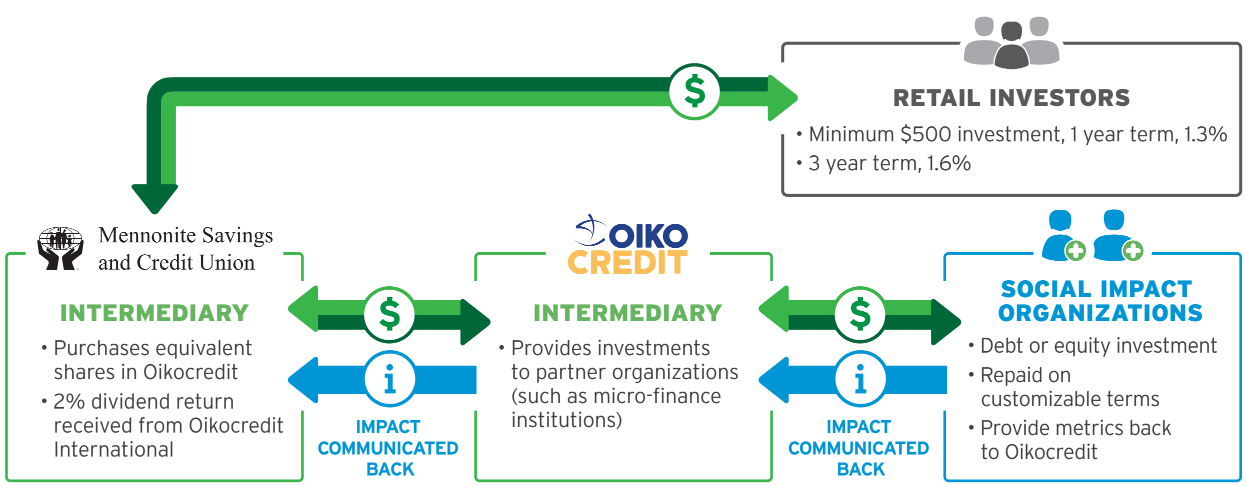
## Key Success Factors

**RESPONSIVENESS:** The responsiveness of the MSCU team was key to rolling out the Oikocredit Global Impact GIC in a timely manner. All departments involved in the product development process were able to provide the project manager with quick turnaround times on inquiries and requests that may have otherwise been bottlenecks.

**LEADERSHIP:** The role of leadership was key to bringing the product to market quickly. The CEO's involvement in the product development from an early stage signaled the importance of this work to MSCU staff.

**BUSINESS AS USUAL:** The MSCU team made a deliberate effort to ensure that the product development and deployment of the Oikocredit Global Impact GIC was consistent with regular retail GIC products. This was also important for the internal product education process, as financial advisors did not need to learn new processes to sell and to administer the product. As Ruth Konrad, MSCU Kitchener Branch Manager explains, "We have created products that are accessible to our members, and this is another example. It is a GIC that is available to everyone, relatively easy to get into, and members can feel great about its impact."

**ADVISOR EDUCATION:** Both the MSCU Director of Investment Services and Oikocredit Canada National Director were deeply involved in the advisor education process. An in-person session for all financial advisors was held at MSCU headquarters, and Oikocredit Canada responded to inquiries from advisors as needed. The depth of engagement contributed to the successful launch and uptake of the Oikocredit Global Impact GIC



# JUBILEE FUND INVESTMENT CERTIFICATE – ASSINIBOINE CREDIT UNION

JUBILEE FUND
ETHICAL INVESTING IN MANITOBA

Money doing more.
Assiniboine™
CREDIT UNION

## General Overview

**PRODUCT OVERVIEW:** The Jubilee Fund Investment Certificate (JIC) is a retail deposit product that individuals or organizations can purchase for three- or five-year terms. Assiniboine Credit Union administers the JICs. The capital is placed in an interest bearing account, which is used to secure loans for community economic development (CED) projects.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | CAPITAL RAISED FROM INVESTMENT |
|---|---|---|---|
| Winnipeg and Rural Manitoba | 2% below GIC rate | $1,000 | $1.7 million (as of January 2016) |

**ORGANIZATION (CREDIT UNION) DESCRIPTION:** Assiniboine Credit Union (ACU) is based in Winnipeg, Manitoba. ACU has 21 branches in Winnipeg and Northern Manitoba. As of 2016, the credit union has $4.1 billion in assets under administration, over 480 employees, and approximately 113,000 members.

**ORGANIZATION (PARTNER) DESCRIPTION:** The Jubilee Fund is an ethical investment fund based in Manitoba. The fund provides short-term loans to non-profit organizations, cooperatives, and social enterprises for community-based projects that aim to address community needs and priorities.

**STRUCTURE:** The JIC is a fixed-term deposit product that is processed (set up, statements, renewals, etc.) by ACU under the partnership agreement with the Jubilee Fund. The certificate provides investors with a return on investment that is slightly below the market return on a conventional GIC. The certificates are not guaranteed, meaning that investors are at risk of loss on the principal and interest. The Jubilee Fund has a loan loss reserve in accordance with its by-laws, which provides a layer of protection to investors against losses. The reserve is adjusted to reflect the total outstanding loan guarantees in the portfolio. The JIC is used to secure loans provided by ACU to social sector enterprises and individuals that do not meet the conventional security or equity requirements and that meet the Jubilee Fund's impact investment criteria. By combining this higher-risk from the Jubilee Fund with conventional lending from ACU, the certificates are able to meet the needs of communities.

**TARGET DEMOGRAPHIC:** The JIC is targeted at investors that are specifically interested in local, ethical, and socially responsible investment. As there is no guarantee on the investment and as interest on the certificate is lower than conventional GICs, the certificate tends to attract investors that are motivated by social impact and the desire to make a difference.

**IMPACT FOCUS:** JICs are used to provide loan guarantees or bridge financing for CED projects that would not be eligible for loans from traditional financial institutions for reasons such as shortage of collateral to secure financing, mismatches in repayment periods, or deal sizes that do not meet minimum requirements. ACU conducts the financial assessment and due diligence. The Jubilee Fund is responsible for assessing the social impact against its own criteria. The Jubilee Fund targets three thematic areas:

- **Affordable Housing**
  The Jubilee Fund works with local organizations and housing cooperatives to provide loans and bridge financing for renovations, in-fill housing, or new housing units in low-income neighbourhoods. The housing is targeted at low-income families and individuals, students, housing cooperatives, and special needs groups.
- **Small Business**
  The Jubilee Fund provides loan guarantees that enable small business owners, low-income and worker cooperatives, and other community-based enterprises to access other funding to start or expand a business.
- **Community Projects**
  This type of investment enables individuals to create employment opportunities through providing services to working families in the community. The Jubilee Fund supports the development and expansion of nonprofit daycare operations, employment training, and recreation programs in the community.

## Product Development

The development of the JIC is interwoven with the creation of the Jubilee Fund itself. The product development process contains information pertaining to the creation of the product and the Fund, as detailed below.

> "There is a substantial community of people who have a passion for economic justice, based on their faith and principles, and are a good fit for a fund like this."
>
> Garry Loewen, CED consultant

**PLANNING:** In 1998, a national coalition of churches organized a cross- country series of events to enhance the economic literacy of social justice advocates. Each event included some national trainers and one local trainer. The local trainer in Winnipeg was Garry Loewen, who at that time was employed by the Mennonite Central Committee. The event inspired some of the forty Winnipeg participants to organize an ethical investment fund to advance the cause of social justice across the province.

A task group was formed to create the Jubilee Fund. The Mennonite Central Committee and one of the Catholic orders agreed to capitalize the fund by each donating $100,000. As the group began its work, it became apparent that it would benefit by partnering with a financial institution with the expertise and infrastructure to develop and manage such a fund. The natural choice was ACU who had established a reputation as a financial institution eager to use its resources to promote social and economic justice. ACU agreed to become a part of the initiative and assigned its CED Manager as its representative. The Jubilee Fund's supporters, who at the time were mainly religious investors from churches, were interested in investing their money in ways that could reflect their values.

**PRODUCT DESIGN:** A total of twenty-two meetings took place over two and a half years in the establishment of the Jubilee Fund. During that time, a group of volunteers worked to develop a set of by-laws, obtain charitable status, and went out in the community to encourage more faith groups to join. Their first annual meeting was held on March 23, 2000. By December 2000, the Fund had investments totaling $345,500 and raised $56,004 in donations.

**PRE-LAUNCH:** With approvals in place, ACU's board worked with volunteers and staff from the Jubilee Fund to create the Jubilee Fund's Investment Certificate. Although the process below is presented sequentially, some activities were conducted in parallel.

1. **Establishing Organizational By-laws**
   The committee and volunteers jointly created organizational by-laws, policies, and procedures. The governance standards created by the Jubilee Fund were key to building the credibility and professionalism needed to obtain their charitable status and establish a formal partnership with ACU.
2. **Defining a Clear Mandate**
   Along with the by-laws, the Jubilee Fund had to have a clear mandate. The organization decided to focus on providing financing to CED and social impact organizations that were not able to access traditional financing. This helped to clarify the use of proceeds for JICs to provide capital for affordable housing and community projects, and to facilitate loan guarantees for small businesses.
3. **Applying to Revenue Canada for Charitable Status**
   This was important to allow for charitable

receipts. It was also felt that it would assist with obtaining RRSP eligibility.

4. **Approval**
   Meetings were held with the Manitoba Securities Commission to receive approval for the sale of JICs.
5. **Review Staff Requirements**
   The committee members realized that they would need a staff member to assist with the sale of investments, soliciting of donations, and reviewing of requests for funding that were starting to arrive.
6. **Seeking RRSP Eligibility**
   Numerous meetings were held with federal and provincial government members in the efforts to obtain RRSP eligibility. The Social Investment Organization (now the Responsible Investment Association) assisted in writing letters to the federal government and in discussions with the federal finance minister. However, the JIC did not become registered as an investment product eligible for RRSPs.

**LAUNCH:** The JIC officially launched in January 6, 2000. Their first annual meeting was held on March 23, 2000. Their first staff was hired in May, 2000. The organization sold its first certificates to members of the religious investor community. That the certificate is still available in 2016 demonstrates a long track record of success. Most investors that purchase the certificate continue to represent the faith-based community. As Rita Borthwick, Fund Development Manager for the Jubilee Fund notes, "Most investors purchase a Jubilee Investment Certificate because their investment, no matter how large or small the amount is, will make a difference in the community. They want to help their fellow citizens. They are not concerned about what sort of money they will make; in fact, nearly 10% donate the full interest back to the Fund."

The organization or CED project that is seeking financing approaches ACU or the Jubilee Fund directly. A meeting is then established with ACU's account manager to understand the financing needs. ACU conducts the due diligence necessary to assess the viability of the deal (loan or bridge financing). If the deal is considered viable from a financial perspective, ACU submits an internal application to the Jubilee Fund. If a need for additional financial security is identified, ACU approaches the Jubilee Fund with a proposal for a loan guarantee. The Jubilee Fund finance committee and board make the final decision.

**POST-LAUNCH:** Since the launch of the JIC in 2000, both the Jubilee Fund and ACU have made considerable changes to their roles in both the sales and deployment process. Post-launch activities that have enabled the organization to further fulfill its mission are described below.

- **Increasing Marketing and Sales**
  In 2003, the Jubilee Fund hired a full-time fund development manager to increase the promotion of the investment certificate. The fund development manager has invested her time in creating and maintaining positive relationships in the community, including attending community and religious gatherings, in order to raise awareness of the JIC among prospective investors. It has been clear that personal interactions, particularly with faith-based community organizations, were key to translate investor interest into action. Over time, ACU has become more involved in the marketing of the JIC. ACU features the JIC on its website and other promotional materials. ACU staff has also internally advocated the JIC, informing and educating financial advisors on the product as a potential investment solution for individuals interested in investing in line with their values.
- **Impact Measurement and Communication**
  Throughout the course of their investment, investors receive regular updates from the Jubilee Fund on the impact of their funds. Impact is communicated through a mailed newsletter (digital and print) and through the Jubilee Fund website. The Jubilee Fund employs storytelling and testimonials in their marketing and investor relations materials, which are gathered through the Fund's community outreach manager who maintains a close relationship with all borrowers.
- **Renewals**
  The Jubilee Fund development manager sends letters to investors with requests for renewal or with a request to increase investment. This is followed up with a phone call or in-person meeting. Investors in the JICs tend to be older, which can present a challenge for renewals because older investors often require funds for their own retirement.
- **Community Engagement and Awareness**
  In 2012, the Jubilee Fund hired a community outreach manager to raise awareness among and increase engagement with prospective community organizations. The community outreach manager attends non-profit board meetings, local community town halls, municipal discussions on CED, and other community meetings to build the profile of the Jubilee Fund and develop a pipeline of potential investment opportunities.

**EXAMPLE: JUBILEE FUND AND THE ASSINIBOINE CREDIT UNION**
Derek Pachal, Community Outreach Manager for the Jubilee Fund, believes that meeting the community where they are is the best way to disseminate the investment opportunity offered by the Jubilee Fund: "Making the [Jubilee Fund's presence known at community events and meetings is extremely important. I attend these meetings and often just sit and contribute ... eventually they get to know me and become quite familiar with the services of the Jubilee Fund."

## The Mechanics

**STEP 1:** Any investor interested in the JIC must make a minimum $1,000 investment into the financial product.

**STEP 2:** Money from deposits is pooled internally within the Jubilee Fund to be used as loan guarantees for social impact organizations in need of bridge financing for CED projects that would not be eligible for loans from traditional financial institutions.

**STEP 3:** Social impact organizations that are unable to obtain traditional financing from other financial institutions approach ACU or the Jubilee Fund for financing. ACU account managers assess the loan application as they would any other loan application.

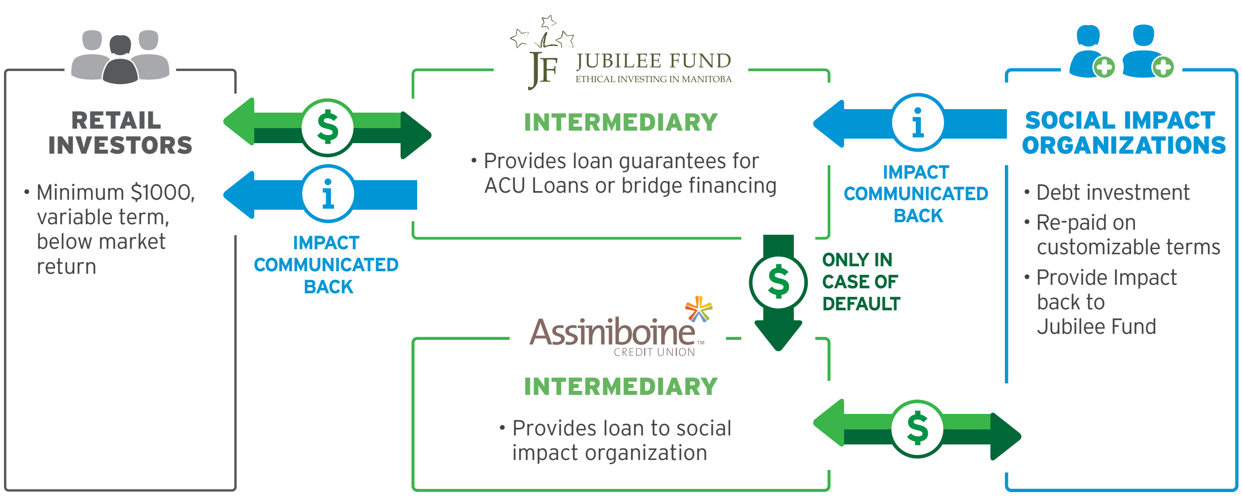
**STEP 4:** The Jubilee Fund community outreach manager assesses whether the proposal meets social impact criteria. If the Jubilee Fund's finance committee approves the proposal, it is brought back to ACU for administration.

**STEP 5:** The investee pays back the loan, and, if necessary, the loan guarantee is called upon to fulfill any shortfalls.

**STEP 6:** Interest is paid out to investors from the Jubilee Fund on a compound annual basis.

## Key Success Factors

- **Communication**
  The Jubilee Fund's relationship with ACU is based on a foundation of consistent and clear communication. The Fund's community outreach manager communicates with ACU regularly on issues ranging from current loans, upcoming projects, and investee challenges in meeting payments. In addition, on a quarterly basis, the director of ACU's Community Financial Centre attends the Fund's board of directors meeting together with the Fund's community outreach manager. The meeting provides opportunities for both parties to discuss anticipated challenges with investees and to reflect on future strategic challenges and opportunities.
- **Lending Expertise of ACU**
  The partnership with ACU has been the key to success. ACU brings lending expertise and due diligence to loan applications. ACU has a solid understanding of the challenges that face non-profits and CED project funding, which has contributed to good lending decisions. The Jubilee Fund contribution is in the form of risk management and maintaining close contact with the projects. Issues that may affect loan repayment are identified early, thereby providing ACU with the opportunity to formulate a timely response.
- **Brand Awareness**
  Over the course of its 16-year history, the Jubilee Fund has established strong brand equity within the community. The Jubilee Fund is able to confidently assert that "no investor has ever lost a cent in the 16 years of the fund."



# RESILIENT CAPITAL PROGRAM – VANCITY CREDIT UNION

## General Overview

**PRODUCT OVERVIEW:** The Resilient Capital Program (RCP) allows retail and accredited investors to invest in a long-term deposit product that is used to make debt and equity investments in eligible social enterprises and blended-value businesses. The program aims to fill the gap between traditional lending and grants.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | CAPITAL RAISED FROM INVESTMENT |
|---|---|---|---|
| British Columbia and Canada | 2% to 3%, insured | $50,000 | $14.5 million under deposit; $10.3 million deployed as of January 2016 |

**ORGANIZATION DESCRIPTION:** Vancity Credit Union is a member-owned financial cooperative head-quartered in Vancouver, British Columbia. By asset size, Vancity is the largest community credit union in Canada with $18.6 billion in assets, 58 branches, and more than 500,000 members.

**STRUCTURE:** Investors choose between five-, six-, and seven-year term deposits. These term deposits are 100% insured by the Credit Union Deposit Insurance Corporation, thereby eliminating the downside risk to investors. The term deposits are not directly linked to the potential gains or losses in the underlying invest-ments. Investors receive steady and predictable returns.

**TARGET DEMOGRAPHIC:** Retail and accredited investors that are members of Vancity.

**IMPACT FOCUS:** The RCP is committed to enhancing the social, economic, and environmental well-being of communities by providing patient, flexible capital to eligible social enterprises and blended-value businesses. Figure 1 is an overview of some of the social enterprises that have received investment from the RCP. The program targets impact in the following areas:

- Local food and food security
- Aboriginal communities
- Environment and energy efficiency
- Support for persons with disabilities
- Employment of marginal-ized individuals
- Affordable housing
- Social purpose real estate
- Arts and culture

**FIGURE 1**

## Product Development

**PLANNING:** The development of the RCP was driven by a growing pipeline of social mission businesses that were unable to secure financing, a growing interest among credit union members in impact investing, and funding from the provincial government to support social enterprise in British Columbia.

First, RCP was created to meet the needs of small business members of the credit union, including social enterprise and blended-value business that the credit union was unable to serve through its traditional credit underwriting process.

Second, the RCP was created to introduce institutional and retail investors to the concept of impact investing. It was envisioned that the RCP would allow investors to track the impact of their deposit money. The challenge for Vancity was to develop a debt or equity product that provided investors with an acceptable level of risk.

Third, the RCP was created to take advantage of new funding from the province of British Columbia. In recognition of the funding gap facing social enterprises, the province provided $2.2 million to the Vancouver Foundation (the Foundation) to support the sector. The Foundation selected Vancity Capital Corporation (VCC), a subsidiary of Vancity, as its partner.

**PRODUCT DESIGN:** Because the product was driven largely by the assumption of sufficient demand, Vancity did not conduct a formal demand assessment survey. Senior management staff played a role in driving the process, which was important for maintaining the momentum for the program.

> "If you're going to do it [develop a retail investment product], then you'd better be certain about the impact that you are trying to achieve, and you'd better have the support of stakeholders and the resources to do it right."
>
> Garth Davis, former VP, Vancity Community Capital

Vancity already had knowledge of community needs and investment opportunities among its own business members. It also had some experience to draw on through its Shared World term deposit, which provides members with the opportunity to invest in a one-year non-redeemable product that supports international organizations dedicated to alleviating poverty. A key lesson from the success of this product is that it is vital to ensure that the credit union understands where members would like to see their investments directed. If that direction is fundamentally different from what the credit union is already doing, Andrea Harris, Director of Community Leadership at Vancity, suggests that credit unions ask themselves, "do we have resources to make those investments and to provide information and stories back to members and to track impact?"

**PRE-LAUNCH:** The leadership at Vancity worked closely with the Vancouver Foundation and the Province of BC to frame Resilient Capital. It was initially envisioned as a limited partnership where VCC would act as the fund manager. Vancity later revised its initial approach in response to challenges such as the perceived risk–return mismatch and a complicated fee structure. The new plan for the RCP was to provide investors with a term deposit product. A detailed history of the RCP is provided in Eight Tracks, a report authored by New Market Funds that provides insightful analysis on the challenges that Canadian social investment funds face in launching and deploying capital. It is recommended that credit unions interested in a model similar to the RCP read this report for a detailed description of these challenges.

> "The big lesson is, if you want to develop a product with multiple bottom lines, you need to take that seriously. You need to be developing them like any other product. Otherwise they will not be successful."
>
> Andrea Harris, Director, Member and Community Insights, Vancity

> "Resilient Capital was designed for a specific purpose for a limited time; it was not a new permanent vehicle. The idea was to begin to get investors and Vancity staff more comfortable with a more direct and focused link between their deposits and the positive effects these could have on their communities."
>
> Andy Broderick, VP Impact Market Development, Vancity

To mitigate internal risk, Vancity and the Foundation each contributed $1.75 million to create a $3.5 million loss reserve pool. These reserves could be used to cover any financial losses on investments. Losses beyond this amount would be covered by Vancity. Based on the size of the loss pool, RCP was capped at $15 million. The RCP team worked with Vancity's product development staff to create marketing materials. Other departments that were engaged in the planning stages include governance, legal, tax, accounting, finance, Inventure Solutions, communications, credit, account managers, community engagement staff, and wealth advisors, with much of the work representing a stretch beyond conventional job descriptions.

> "A partnership approach has been extremely valuable to us. If you can, partner with like-minded organizations, and play to each other's strengths. We invest in initiatives that move the conversation forward for the institution, but also to build the broader ecosystem. This is a big part of how we work, and what we want to achieve."
>
> Mandeep Sidhu, Associate, Community Investment, Vancity

**LAUNCH:** In 2011 the deposit offer was opened to investors, and it was closed in February 2014. A unique feature of the RCP is that the majority of the investment pipeline is sourced from Vancity's traditional lending departments: Community Business and Community Capital. Businesses that apply for financing from these two departments and do not meet traditional financial requirements but do meet the RCP's definition of impact are referred to the RCP by a Vancity account manager. It is also possible for potential investees to directly contact the program manager. The RCP has benefited from the staff's ability to leverage its existing relationships within the community. Notably, Vancity has not had to spend significant time seeking opportunities because it is able to draw on its reputation and credibility in being offered and proactively identifying opportunities within the community.

Any investment that is made through the RCP must meet specific impact criteria defined by Vancity. For each investment, Vancity together with the impact business being financed jointly establish a set of impact indicators that are unique to each investee. For example, affordable housing impact indicators look at the number of people that were housed, whereas employment for marginalized populations impact indicators might look at how many new jobs were created. In Vancity's experience, the investee organizations are dedicated to the measurement of their respective impact because not only do investors want this information, but it helps investees measure their own progress. However, it can be a challenge, as impact measurement is resource intensive, as the program manager must maintain the metrics, do quarterly and financial reviews, and talk to investees on a regular (quarterly) basis.

> "With regard to social enterprise, there will always be a challenge in the sense that credit unions tend to be more local, and the ability to show impact on a local level tends to be smaller scale and tends to be higher risk."
>
> Garth Davis, former VP, Vancity Community Capital

While the RCP provides investors with guaranteed return of their principal, prospective investors remain uncertain, which interviewees suggested is perhaps due to misunderstanding the risk protection or the illiquidity of the investment product. The local focus of the program also presents a challenge for attracting investors outside of the community, and investors that are interested in specific social and environmental issues that are not addressed by the RCP.

**POST-LAUNCH:** To keep investors informed about the financial and social impact performance of investees, the RCP set up an internal website. Vancity makes an effort to hold a call with their depositors at least once a year. Staff members are also available on an ongoing basis to answer depositor questions.

> "A big part of the value-added for Resilient depositors are the robust metrics, insights, and exemplary practices that are transparently shared through rich quarterly reports and other materials. It is through this intentional exchange of information and experience that impact investors are going to figure out how to move mountains."
>
> Lauren Dobell, Director of Strategic Partnerships and Advocacy, Vancity

## The Mechanics

**STEP 1:** Any investor interested in the Vancity RCP is referred to the program manager for more detailed information. Once an investor is committed to the investment, a minimum $50,000 deposit is made into the RCP.

**STEP 2:** Money from the deposit investors is pooled internally within the Vancity Credit Union.

**STEP 3:** The pipeline is sourced from Vancity's lending departments, specifically Community Business and Community Capital. Businesses that apply for financing from these two departments and meet preliminary impact criteria but are unable to meet traditional financial requirements are referred to the RCP manager by an account manager.

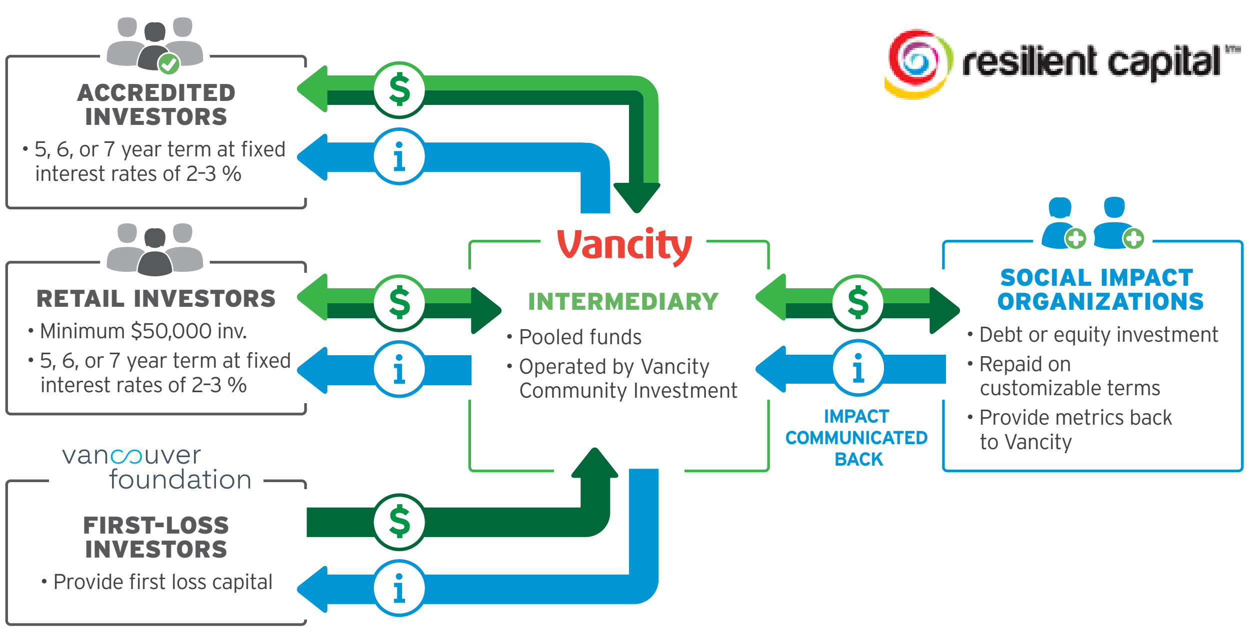
**STEP 4:** At this stage in the process, the account manager and the RCP manager work together to assess the business's fit for the RCP. The account manager focuses on evaluating the financial health and needs of the potential investee and the program manager evaluates the potential impact of the organization.

**STEP 5:** Once the program manager and the account manager are satisfied with due diligence, the loan, if approved by Vancity's Credit and Risk teams, is deployed to the investee business. Within the organization, loans deployed to the RCP investees are separately coded and tracked to ensure accurate information and supporting data. At this stage in the process, the program manager is introduced to the investee to discuss potential metrics to track the impact of the investee organization.

**STEP 6:** Once the loan is deployed, the program manager maintains the relationship with the investee organization, collecting quarterly impact metrics. The account manager keeps track of financial performance, while updating the program manager. All relevant information is uploaded to a private investor site by the program manager where investors are able to check the impact and financial performance of the investee organizations.

## Key Success Factors

- Vancity staff emphasized the importance of assessing not only the start-up costs, but also the ongoing maintenance costs that are involved in the process of creating a new retail impact investing product.
- Vancity understood that investors wanted to track how the RCP is doing both in terms of financial performance and social impact. The website played a key role in communicating impact with investors.
- Vancity's extensive business banking and community networks allowed it to develop a large pipeline of potential deals from which to identify viable loans and investments.



# COMMUNITY BOND – CENTRE FOR SOCIAL INNOVATION

## General Overview

**PRODUCT OVERVIEW:** In 2015, the Centre for Social Innovation (CSI) issued a community bond to finance the purchase of a building in Toronto as part of its co-working model. The community bond offers three variations (Series C, D, and E). The retail product is the second community bond issuance by the CSI. Through its first issuance in 2010, CSI raised $2 million.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | CAPITAL RAISED FROM INVESTMENT |
|---|---|---|---|
| Toronto | 3% to 4.5% | $1,000 to $50,000 | $4.6 million from 227 investors |

**ORGANIZATION DESCRIPTION:** CSI is a social enterprise with a mission to catalyze social innovation and to foster collaboration by connecting social innovators and entrepreneurs working across sectors. CSI believes that society is facing unprecedented economic, environmental, social, and cultural challenges and that new innovations are the key to turning these challenges into opportunities to improve our communities and our planet. CSI has three locations in Toronto and one location in New York City.

**STRUCTURE:** Community bonds are available to non-accredited investors. Subject to provincial securities regulations exemption rules in Canada, these bonds can only be issued by nonprofit organizations. The CSI Community Bond is an asset-backed debt instrument, and it is a qualified investment, which means that individuals can purchase it through self-directed registered accounts (e.g., RRSP and TFSA). To finance the full purchase of its new building, CSI had to raise a total of $16 million. A portion of the total purchase price ($12 million) was financed through a mortgage from a credit union. The remaining $4.3 million was raised through the sale of community bonds. The bonds are subordinate (second position) to CSI's mortgage loan provider. This means that CSI is obligated to repay the bank before it repays bondholders.

| BOND OFFERNING | SERIES C BOND | SERIES D BOND | SERIES E BOND |
|---|---|---|---|
| Interest Rate | 4% | 4.5% | 3% |
| Minimum Investment | >$10,000 | >$50,000 | >$1,000 |
| Interest & Repayment | Accruing and compounding, interest and principal paid upon maturity | Interest paid semi-annually, principal paid upon maturity | Accruing and compounding, interest and principal paid upon maturity |
| Maturity Date | May 15, 2019 | May 15, 2019 | May 15, 2017 |
| Community Perk | Series C Bond investors will receive a complimentary CSI Community Membership unitl the bond's maturity date. | Series D Bond investors who are not CSI member will receive a complimentary CSI Community Membership until the bond's maturity date. | Individuals making an investment of $10,000 or more will receive a complimentary CSI Community Membership until the bond's maturity date. |

**TARGET DEMOGRAPHIC:** Over 50% of bondholders are members of the CSI. The remaining bondholders tend to be connected to CSI's network. Any resident of Canada or a Canadian corporation or nonprofit organization can invest in the community bond. CSI is looking at extending the investment to investors outside of Canada.

> "Internal capacity to manage this process is really important for anyone looking at launching a bond because there are so many different aspects to it from sales, marketing, and legal to finance and administration. There are also a range of administrative activities that are very important to get right and often underappreciated. Pulling it all together among a strong team is key."
>
> Chelsea Longaphy, CSI

**IMPACT FOCUS:** CSI has purchased a 64,000 sq. ft. building in Toronto to expand its co-working model. Proceeds from sales of the community bond go towards the financing of this new co-working space.

## Product Development

The structural development of the community bond closely follows CSI's original bond issuance process in 2010. The profile below focuses on the unique strategies that the CSI deployed from the launch phase of the original bond and from the new issuance of the second community bond.

**PLANNING:** CSI developed the concept for its first community bond in 2010, working with Alterna Savings Credit Union to finance the purchase of a building in Toronto, Ontario. The second CSI Community Bond concept was developed to finance the purchase of a second building in Toronto alongside a syndicated mortgage from Alterna Savings Credit Union and Citizen's Bank. CSI lowered the minimum investment threshold from $10,000 in the first issue to $1,000 in the second issuance to increase access to retail investors. Working with a strong and diverse internal team was critical to CSI's success with the second bond. Core team members had expertise in law, finance, marketing, and communications. In some cases, it was necessary to use external expertise, such as lawyers, to draw up the trust agreement between the bondholders and CSI.

**PRODUCT DESIGN:** Unlike the other products reviewed in this guidebook, the CSI Community Bond was not the first retail impact product to be issued by the organization. CSI was thus able to build on its experience and to demonstrate demand by referencing success with their first issuance. CSI leveraged the over-subscription of the first bond by using a waiting list of individuals seeking to purchase the second bond.

CSI explored the possibility of working with lending institutions to issue and distribute its bond. Compared to its first bond issuance, CSI found that fewer financial institutions were willing to process the bond in a more conservative regulatory environment. In particular, financial institutions were more cautious than they had been in 2010 of non-standardized products that require more due diligence to evaluate their risk profiles. The lack of standardization for the community bonds also meant that financial institutions needed to establish a new set of internal processes, which can be costly if not done at scale. CSI benefited from a passionate and committed group of investors who were determined to buy a bond even if it could not be purchased through their own lending institutions.

CSI benefits from its relationship with TREC Renewable Energy Cooperative, an organization that provides community bond investment administration services to clients. These services include record keeping, contact for member and investor inquiries, administration support for the bond, and marketing and other activities related to community bond development.

> "We have not lost many sales from those people that were not able to invest through their RRSPs. Of course, RRSP eligibility is important to achieve scale more generally for these products, but for those investors that were interested in the CSI bond, they are OK with not investing through their RRSPs."
>
> Chelsea Longaphy, CSI

**PRE-LAUNCH AND LAUNCH:** Upon the launch of the product, CSI engaged an internal team of four staff to develop and to promote the organization's retail product. Specific marketing activities included the following:

- **Information Sessions**
  The CSI team hosted a community bond fair where they worked with other retail impact investment

bond issuers, Zooshare and Solarshare, to jointly deliver information on impact investment options to individual investors. The joint session exposed CSI to a wider market of potential investors. The marketing team heavily promoted their information sessions to the CSI co-working community, to philanthropic networks, and to the public through social and digital media.

- **Leveraging Credibility and History**
  CSI was able to leverage its reputation and networks to market its second community bond. Other marketing tools included paid advertisements on social media sites and leveraging testimonials from community members and previous investors. This was particularly important for their marketing material on the second issuance, as first-time investors were interested in the performance impacts achieved with the first bond.

**POST-LAUNCH:** CSI distributes a quarterly mailing list that keeps investors updated on relevant financial matters, such as cash flows, and gives background information about the tenants that use the building. CSI staff find that storytelling is among the most powerful tools for communicating with its investors. Investors who come to the building are given a tour to see the community they have helped to build.

## The Mechanics

**STEP 1:** Any individual interested in the CSI Community Bond can make a minimum $1,000 investment into the financial product. Individuals can invest directly, by contacting CSI, or indirectly, through their self-directed RRSP account, provided that their banking institution allows them to do so.

**STEP 2:** Funds raised from the investors goes towards financing the purchase of the CSI co-working space.

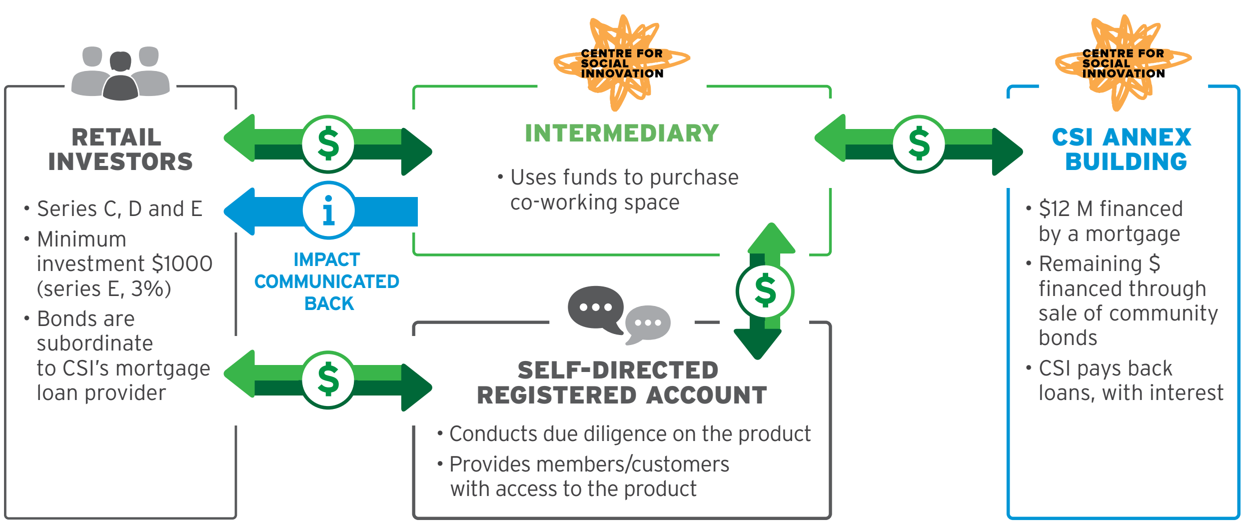
**STEP 3:** CSI pays back the interest (depending on which series of bond, this may be paid semi-annually or on an accruing and compounding basis) and the principal at the end of the three- or five-year term. CSI has the option of refinancing the bond.

## Key Success Factors

Follow-up with investors on the success of the first community bond was key to driving investor demand for the second retail community bond. For example, one of the most common questions that potential investors asked CSI was about financial risk, and having a track record to draw on was useful for building confidence among new investors.

CSI staff see an opportunity for banks and credit unions to facilitate the distribution of community bonds, but staff also recognize the challenging regulatory environment and resource constraints that these financial institutions face.

CSI has developed a guidebook for developing community bonds. *The Community Bond – An Innovation in Social Finance* provides lessons for social enterprises and other community-minded organizations that are interested in launching their own community bond. In addition to specific templates for subscription and trust agreements, the guidebook provides broader advice to policy makers. It has been adapted for British Columbia, as well. The guidebook is available to download on CSI's website [http://communitybonds.ca/our-story] for a fee.



# COMMUNITY INVESTMENT NOTE – CALVERT FOUNDATION

Calvert Foundation™

## General Overview

**PRODUCT OVERVIEW:** The Calvert Foundation's Community Investment Note is a fixed-income product that supports a diversified portfolio of social sector organizations and initiatives in the US and around the world. With a minimum investment of $20 online or $1,000 through a brokerage account or direct investment, investors earn a fixed financial return and generate measurable social returns. Investors in the Note must have a US tax ID number.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | CAPITAL RAISED FROM INVESTMENT |
|---|---|---|---|
| Global | 0.5% to 3% at terms of 1 to 10 years | $20 online, $1,000 directly or through brokerage | US$1.2 billion cumulative; current Note balance $275 million (as of December 31, 2015) |

**ORGANIZATION DESCRIPTION:** The Calvert Foundation is a nonprofit loan fund and community development financial institution (CDFI) that was incorporated in 1988. The Calvert Foundation's mission is to use individual and institutional investment decisions to change the way capital is approached and allocated. This change will reward inclusive and sustainable behavior to fight the rising tide of inequality. By creating innovative financial products and services, the Calvert Foundation makes it possible for retail investors to invest in a financial instrument—the Community Investment Note—that directly serves communities.

**STRUCTURE:** The Community Investment Note is a fixed-income product. The capital raised through the Note is used to support the Calvert Foundation's professionally managed loan portfolio. Retail investors can purchase the Note directly from the Calvert Foundation through a brokerage or online at Vested.org. The Note is a general obligation of the Calvert Foundation and is not guaranteed or insured. It currently returns up to 3%. A unique feature of the Note is the flexibility it provides for investors to target their investment to a variety of impact areas. Targeting does not increase the risk to investors; all investors benefit from the diversification and capitalization backing of the entire loan portfolio.

**TARGET DEMOGRAPHIC:** The Community Investment Note is designed for and marketed towards individual and institutional investors and their financial advisors who want to have social impact through their investments.

**IMPACT FOCUS:** The Calvert Foundation invests in other loan funds (e.g., other CDFIs), microfinance institutions, non-profits, and social enterprises in the US and around the world. A large portion of the Calvert Foundation's US portfolio consists of CDFIs and affordable housing projects while international investments tend to target microfinance and development projects, such as sustainable agriculture and health. The Calvert Foundation currently offers fifteen different Note investment options to align with the varied social impact interests of their investors.

## Product Development

The Calvert Foundation's Community Investment Note was first launched in 1995. Since then, over $1.2 billion of capital have been raised through the Note with multiple targeting options available. Most recently, the Calvert Foundation has launched a Community Investment Note for the India Investment Initiative and the Raíces Initiative. These investment options provide opportunities for the Indian and Latino diaspora populations to invest in projects in India and Latin America, as well as Latino communities in the US.

"We want to crowd in demographics that perhaps are not represented in the overall impact investor movement. If you really want a movement then you need to change the behaviour of how people invest and bring all investor types to the opportunity."

Jenn Pryce, President and CEO Calvert Foundation

**PLANNING:** The Calvert Foundation was interested in creating a product that could attract a wide range of investors, including retail investors. To achieve this goal, it was necessary to access investor markets that do not traditionally invest in impact investments. For example, the India Investment Initiative was intended to crowd in demographics that were, at the time, not represented in the overall impact investment movement.

**PRODUCT DESIGN:** While the Calvert Foundation recognizes the need for equity in impact investment sectors, debt was seen as more predictable and suitable for both investees and investors. The Calvert Foundation structured the Note for the India Investment Initiative and the Raíces Initiative to look like a corporate bond. Detailed underwriting, credit monitoring, and diversification strategies were important to mitigate the risks to investors. Investors also benefit from over $45 million in net assets, loss reserves, and security enhancements that will protect them from potential portfolio losses.

**PRE-LAUNCH:** Through a partnership with an underwriter and distributor of fixed-income securities, the Calvert Foundation gained distribution access to hundreds of brokerage firms that enabled the Note to be held alongside other corporate notes and bonds in brokerage accounts. For the Calvert Foundation, increasing the Note's accessibility to investors and advisors was key to raising capital. It was also important that the Note look similar to a traditional financial product so it could be easily understood.

Building and maintaining relationships with these brokerages required the Calvert Foundation to make a significant operational investment on an annual basis. A dedicated team of four, full-time employees at the Calvert Foundation are responsible for maintaining relationships with these financial intermediaries. The Calvert Foundation also has a compliance department to ensure that the Note is in good standing with regulators. As President and CEO of the Calvert Foundation Jenn Pryce explains, "[building and maintaining relationships] is not easy to do; it costs money, and when we are dealing with capital markets, it is a bit like David and Goliath. What was key to Calvert Foundation's success with promoting the product among brokerages was that the Note has a track record of success and proven investor demand."

"It is a challenge to get people to think about taking their capital and using it for investing in social good rather than simply donating it. To overcome that challenge, we talk about how impact investing is an efficient use of capital – by providing loans to sustainable and scalable organizations that can repay our investment."

Katherine St. Onge, Senior Officer, Calvert Foundation

Brokerage firms themselves perform extensive due diligence before allowing financial advisors and their clients to access the Note. While each brokerage firm has a different due diligence process, some common aspects of the process include developing a strong understanding of the product, the investment decision-making process, the sales goals, capitalization, and liquidity, and the Calvert Foundation's ability to repay investors.

**MARKETING:** The challenge for the Calvert Foundation was creating low-cost marketing for a retail product, recognizing that educating a dispersed retail audience takes significant resources and time. The Calvert Foundation found that having a consultant that understood the target investor population was important to reach new networks of influence and broaden the investor community.

**LAUNCH:** Community Investment Notes can be purchased by retail investors through self-directed individual retirement accounts (IRAs) and through traditional brokerage accounts. The majority of retail investors access the Note through their investment portfolio. Investors receive fixed financial returns that are based on fair rates to borrowers.

**POST-LAUNCH:** Investors are provided with the social impact metrics of their investments, such as the number of jobs created, houses built, women-led businesses created, and farmers supported. On an annual basis, the Calvert Foundation collects social and environmental performance data from each of its portfolio investments using a custom Social Performance Measurement Report template that incorporates industry-aligned indicators such as IRIS and the US CDFI Fund. The Calvert Foundation combines these quantitative metrics with testimonials and stories collected from investees in an annual social impact report for partner organizations and investors.

The Calvert Foundation is considered by investors to be a stable investment. The Community Investment Note has been around for twenty years and has a strong track record of success. Every investor has been repaid their full principal and interest. Another feature that is attractive for investors is liquidity. Because there is no secondary market for the Note, the Calvert Foundation typically allows investors to redeem their Note early if needed.

## The Mechanics

**STEP 1:** Any individual interested in the Note is able to invest a minimum of $20 online or $1,000 directly or through a brokerage. Individuals purchasing Notes through a brokerage firm provide a corresponding CUSIP number to their brokerage's fixed-income desk who, in turn, purchase the product on their behalf.

**STEP 2:** Capital from investors is pooled together.

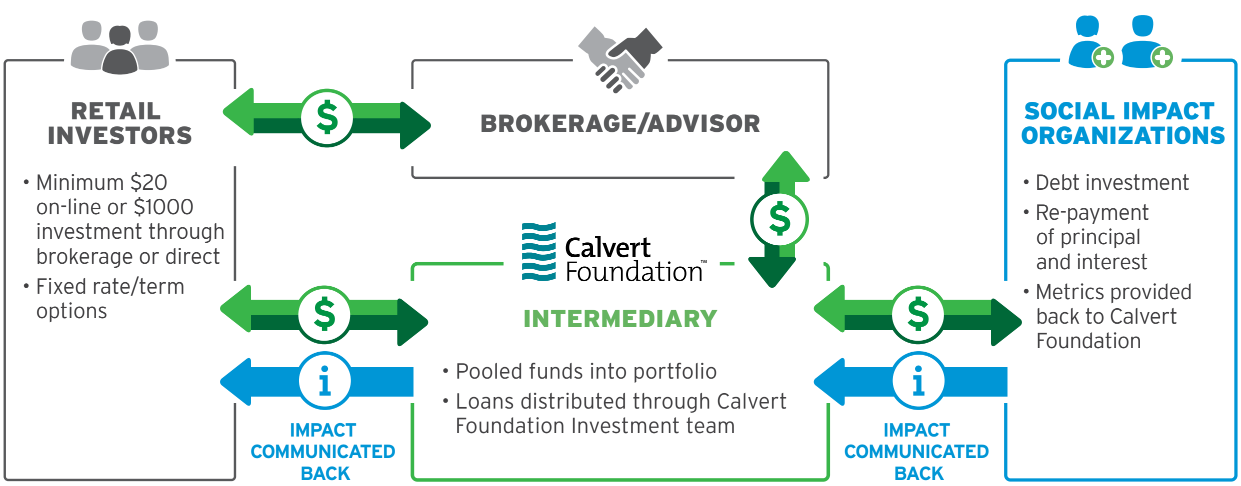
**STEP 3:** The Calvert Foundation evaluates and makes investments into organizations that align with its mission. If an investor selects one of the Calvert Foundation's fifteen investment options, their capital is targeted to the loans that make up that specific portfolio strategy. The Calvert Foundation's average loan size is nearly $2 million, and loans range from $100,000 to $10 million.

**STEP 4:** As investments are paid back into the aggregate portfolio, annual interest is paid out to investors. Investors receive social impact updates along with monthly updates from the Calvert Foundation. At year's end, all investors are provided with the annual social impact report.

## Key Success Factors

**FINANCIAL ADVISORS:** The Calvert Foundation's ability to access retail investors through brokerages and financial advisors has contributed significantly to their ability to access individual investors. This has required the Calvert Foundation to make significant investments in building and maintaining relationships with brokerage firms and other financial intermediaries. This investment has paid off, as the Note has become a successful platform for accessing the retail investor market.

**FIELD BUILDING:** The Calvert Foundation's role as one of the first and only impact investors to offer a fixed-income retail product meant that the organization was initially trying to sell products in an underdeveloped market. The organization has spent extensive resources building the capacity of the field, releasing research reports, and launching transformative initiatives to build the capacity of partner organizations. In addition to increasing positive brand equity and awareness, this field building has ultimately benefited the Calvert Foundation, as a more robust industry has created more investment opportunities.



# INVESTMENT FUND NOTE – RSF SOCIAL FINANCE

RSF Social Finance

## General Overview

**PRODUCT OVERVIEW:** The Rudolf Steiner Foundation's (RSF's) Social Investment Fund (SIF) pools investments as low as a thousand dollars and uses the money to finance nonprofit organizations and social enterprises. The SIF Note is a three-month investment product that provides retail investors with an opportunity to put their dollars into a diversified, direct loan fund doing impactful work. The Note is available to individuals and institutional investors with residence in the United States with the exception of Arkansas, Missouri, and Washington. Although previously available in Canada, the Note is no longer offered due to changes in Canadian law.

| GEOGRAPHIC FOCUS | RETURN EXPECTATION | MINIMUM INVESTMENT | TERM | CAPITAL RAISED FROM INVESTMENT |
|---|---|---|---|---|
| The US with the exception of Arkansas, Missouri, and Washington. | Variable, set quarterly, 0.5% as of January 2016 | $1,000 | 90 Days | US$103 million |

**ORGANIZATION DESCRIPTION:** RSF Social Finance is a public charity and financial services organization "dedicated to transforming the way the world works with money." Since 1984, RSF has financed more than $285 million in loans to enterprises committed to improving society or the environment. Additionally, through its philanthropic services division, RSF has gifted $130 million to nonprofit organizations.

**STRUCTURE:** The RSF SIF Note is a short-term cash investment. Investors earn monthly compound interest that is paid upon maturity. If investors do not redeem their earned interest, the amount is automatically invested back into the principal. Notes are unsecured, uninsured, and not tax-deductible, meaning that interest earned is taxable.

Interest Rate: In 2009, the RSF adopted a new approach to determining interest rates. Rather than base rates on conventional benchmarks such as LIBOR, RSF holds a quarterly "pricing meeting" where investors, borrowers, and RSF staff discuss and ultimately make a recommendation on how rates should be set. This recommendation is then sent to the Pricing Committee, which includes C-suite members of RSF; they make the final decision regarding RSF prime.

This approach provides investors and borrowers with greater transparency and less volatility. With this process, RSF also seeks to balance the needs of clients with the financial sustainability of RSF. RSF lending operations are paid through net interest spread.

Performance: Since inception, no investor has experienced losses. RSF has a loan reserve pool that is maintained at around 10 percent of assets under management. Since 1984, the RSF has experienced losses of 2%.

**TARGET DEMOGRAPHIC:** The RSF SIF Note was specifically created to attract retail investors who seek alternatives to traditional short-term cash investments.

**IMPACT FOCUS:** RSF focuses its efforts in the areas of food and agriculture, education, the arts, and ecological stewardship.

## Product Development

Note: Since the RSF SIF Note was created over ten years ago, the information provided in this section focuses on the latter stages of product development.

**PLANNING:** The RSF SIF incorporated on July 14, 2000 and was created to serve as RSF's investing and lending program. Interested in ensuring accessibility to retail investors, the RSF Board of Directors explored the concept of a short-term investment product that paralleled its then-regional notes program available to individuals interested in investing in RSF directly.

**PRODUCT DESIGN:** The RSF SIF remained largely dormant from its incorporation through early 2006 while regulatory matters regarding state securities laws and registration requirements for the Note were addressed. During that period, the RSF did not issue any Notes and did not originate any loans. However, in anticipation of the commencement of investing and lending activities, RSF received a gift of $3 million, a loan of $4 million, and a guarantee of obligations in the amount of $5 million from clients interested in the success of the fund.

**PRE-LAUNCH:** In March 2006, RSF launched its initial offering of SIF Notes on a limited basis. In 2007, RSF's SIF was issued a lenders license by the California Department of Corporations, opening the door to lending activities for the fund. RSF's SIF has continued to expand its Note offing in additional states, complying with and satisfying state-specific securities laws and regulatory requirements along the way. The Notes are available in forty-seven states, and RSF intends to seek approval or exemption in the remaining three states in the foreseeable future.

RSF experienced slow but steady pick-up in activity. Retail investors are currently the largest cohort of Note holders—approximately 80% of investors. Investment amounts tend to be small and held for an average of four years by investors. The online portal is key for reporting to investors and maintaining their trust. RSF expects to see an increase in the number of young investors interested in the SIF Note.

**LAUNCH AND POST-LAUNCH:** Since the launch of the SIF Note in 2006, RSF has employed strategies that enhance its ability to acquire clients, maintain relationships with investors, and deploy capital in line with its mission.

1. **Client Acquisition**
    - Field Building: Rather than advertise the SIF Note, RSF instead promotes the offering through field-building activities that support partner groups working in social finance or entrepreneurship. Presenting or sponsoring conferences, disseminating thought-provoking articles and papers[41] and convening money-related discussions are all aspects of field building.
2. **Investor Relations**
    - Investor Website: RSF has a website with an online portal that is only accessible to noteholders. The portal provides information on the aggregate portfolio, including financial performance and impact metrics. Updates are communicated to investors on a quarterly basis. Personal stories and testimonials are also provided by investees via the website.
    - Impact Measurement and Communication Once a loan is deployed, RSF tracks impact metrics—collected both online and in-person—and communicates them to investors. RSF has created a questionnaire that focuses on understanding a) how a social enterprise views and assesses its own impact on the community, b) how transformative an enterprise's practices are with regard to people, place, and the environment, and c) how working with RSF has informed or changed the organization's understanding of the role of money. Once completed, the questionnaire is given a score. These scores are then aggregated into an overall portfolio score that translates the impact to investors.
3. **Capital Deployment**
    - Relationship Managers: Similar in function to lending managers, RSF relationship managers identify loan opportunities and strengthen relationships with current and prospective borrowers. Each manager focuses on a specific focus area (See "Impact Focus" above) and builds a body of subject matter expertise that supports the evaluation of new loans and projects.
    - Integrated Capital Approach: In 2012, RSF launched its first integrated capital initiative. Integrated capital uses a range of tools—including grants, debt, equity, and guarantees—to enhance RSF's ability to deploy capital to organizations in need. (Note: grant funds are used for technical assistance and are paid directly to assistance providers.) The funds are used to support enterprises in various stages of growth. It enhances the security of loans, builds investor confidence, and allows RSF to deploy capital in a much more supportive manner.

> "Community gatherings are our attempt at shifting the power dynamic and trying to democratize the investment and granting process."
>
> Mark Herrera, Senior Manager Client Development

## The Mechanics

**STEP 1:** Any individual interested in the SIF Note can open an account with RSF with a minimum of $1,000.

**STEP 2:** Capital from retail investors is pooled with capital from accredited investors.

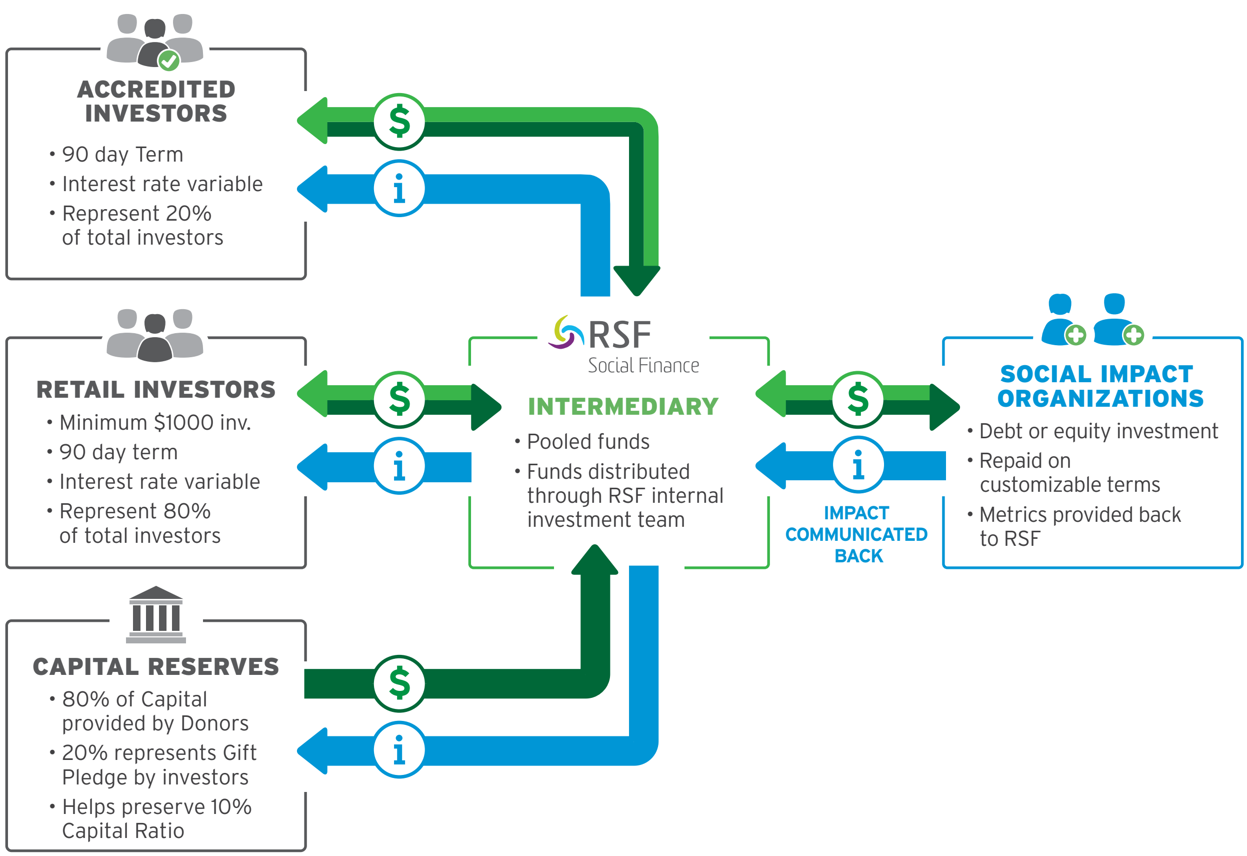
**STEP 3:** RSF independently evaluates investment proposals from non-profits and social enterprises. Investments, on average $676,000, are distributed to organizations on custom terms.

**STEP 4:** Investors may elect to have interest accrued or to be paid out on a quarterly basis. Additional options include gifting the accrued interest to RSF operations or another RSF granting fund. Investors are also provided impact information on a private investor relations website.

## Key Success Factors

RSF puts considerable effort towards maintaining and increasing the quality of its relationships with clients. "We strive to create transparency between the borrower and the investor," says Mark Herrera, Senior Manager for Client Engagement. "We believe that human beings are best served by financial transactions when all parties are known to each other."

Access to social finance for retail investors—with all its challenges and successes—and independence from large, opaque financial systems are seen as goals for RSF.



# CHAPTER 5
# RETAIL IMPACT INVESTMENT PRODUCT ROAD MAP

## Overview

This chapter translates the product development process into a set of practical strategies and actions for developing and implementing a retail impact investing product. It is intended to be an accessible framework for credit union staff to work through aspects and considerations around product planning and design from pre- to post-launch. It is has been adapted from publications authored by the Joint Forum of Financial Market Regulators and EMC.[42]

The roadmap provides an illustrative process and set of corresponding activities for the development of a retail impact investment product for credit unions. Individual credit unions may work through each set of steps in sequence or draw on specific components depending on their objectives and prior experience in this area. These steps are typically led at the outset by an internal staff member, the project initiator, who may eventually turn into a project lead or project manager for the product development stages.

**FIGURE 5.1 THE PRODUCT DEVELOPMENT ROADMAP**

| PLANNING | PRODUCT DESIGN | PRE-LAUNCH | PRODUCT LAUNCH | POST-LAUNCH |
|---|---|---|---|---|
| 1. Understanding Motivations and Business Drivers<br>2. Understanding the Landscape for Retail Impact Investment<br>3. Exploring External Partnerships | 1. Validating Investor Demand<br>2. Assessing Impact Opportunities<br>3. Determining Product Structure<br>4. Gaining Approval | 1. Coordinating Internal Processes<br>2. Developing a Marketing Strategy<br>3. Developing a Sales Strategy | 1. Issue Press Release to Targeted Markets<br>2. Convene Events to provide detailed information | 1. Investor Engagement<br>2. Community Partner Engagement<br>3. Reporting |

**PLANNING** is defined as the set of activities and processes that enable a credit union to be ready to explore and embrace the preliminary concept of a retail impact investing product.

**PRODUCT DESIGN** is defined as the process of collecting (external and internal) information and evidence that helps to build internal support and a business case for a proposed retail product.

**PRE-LAUNCH** is defined as the set of internal processes and activities that enable a credit union and its partner organizations to successfully develop and prepare to launch a product.

**PRODUCT LAUNCH** refers to the set of activities that aid in the official introduction of a product to the investor market. This stage is typically the first time that external audiences (i.e., members) are exposed to the product.

**POST-LAUNCH** refers to the set of internal activities that evaluate the reception of a product with the investor and community partner audiences and its efficacy at upholding the credit union's own commitment to corporate social responsibility.

### CREDIT UNION STAFF ARCHETYPES

| Icon | Staff Archetype | Definition |
|---|---|---|
|  | **MARKETING** | Staff members involved in the credit union marketing activities. |
|  | **WEALTH** | Staff members involved in investment management, financial advisory, and planning disciplines, either for retail or high net worth investors. |
|  | **FRONTLINE STAFF** | Customer service representatives who have personal interactions with members. |
|  | **INVESTMENTS/ TREASURY** | Staff members involved in the development and introduction of new investment products or the modification of existing investment products. |
|  | **SENIOR MANAGEMENT** | Staff members who oversee key departments and offer lead strategic leadership related to the development of the retail product. |
|  | **EXTERNAL PARTNERS** | Foundations, non-profits, or intermediaries involved in the design or launch of the retail product. |
|  | **MEMBERSHIP DEVELOPMENT** | Staff members who are involved developing and maintaining customer relationships including activities related to recruitment and relationship management. |
|  | **COMMUNITY INVESTMENT** | Staff members who are involved in developing and maintaining relationships with community organizations and supporting initiatives that build communities. |
|  | **CREDIT UNION SOCIAL RESPONSIBILITY** | Staff members who are responsible for the range of social, environmental and ethical programs and initiatives that give expression to a credit union's commitments to put people before profit. |

## a. Understanding Motivations and Business Drivers

**KEY STAFF**

*Senior Management & Investment Teams*

Credit unions need to understand their own motivations for developing a retail impact investment product. The framework below provides some questions and examples to help guide staff through this process.

- **What are our Objectives and Values Around Creating a New Retail Product?**
  The product development process should align with the organization's objectives and values, in particular its social impact objectives, within the context of its broader mission (See box 5.1).
- **How Will Creating a New Product Help Us to Meet the Short, Medium, and Long-Term Goals?**
  The product should allow the credit union to move forward to strategic goals that are organization-wide, as well as goals that link to specific elements of member engagement, community engagement, product innovation, or market leadership.
- **What are the Financial Expectations for the Product?**
  The financial return potential of a new retail impact investment product can be mapped across a spectrum. Most credit unions that we interviewed prioritized a retail product that breaks even in the short- to medium-term.
- **What are the Impact Expectations for the Product?**
  The social and/or environmental impact from the product can take a variety of forms, and can be linked to a specific issue area (e.g. improved access to affordable housing) or targeted group (e.g. improving wages for those on social assistance).

**GETTING STARTED: FORM AN INTERNAL WORKING GROUP** The project initiator should gauge the interest of staff through informal conversations or, if possible, through more formal means, such as information sessions and survey questionnaires. It is useful to connect with staff across a range of departments to identify areas of support and resistance within the organization. Information that will be useful to collect at this early stage includes the following:

- **Assessing staff familiarity with impact or responsible investment** products, including retail and institutional products. This will indicate the level of staff education that will be required and also signal potential areas of expertise that can be leveraged.
- **Assessing staff perceptions about impact investment**, such as assumptions around performance expectations or perceptions around trade-offs between financial returns and social impact. This will indicate potential areas of education or awareness building.

Building on this data, the project lead can identify and convene a working group across several departments. This could include representation from retail banking, wealth advisory, community investment, marketing and sales, and corporate responsibility. At this stage, the goal will be to foster openness to this type of product and to explore and learn together. Building trust among this working group will help to ensure alignment with various organizational and departmental mandates.

**GETTING STARTED: SHARE INFORMATION INTERNALLY** Even though representation on an internal working group comes from several departments, it is helpful to create a platform to share this learning with other members of the credit union. This process can generate new ideas and insights and also create a level of transparency around new opportunities that will be appreciated by the staff. Credit unions have used a variety of strategies to share information, including the following:

Box 5.1:

**Enhancing Mission Alignment:** Retail impact investment products provide credit unions with an opportunity to have stronger mission alignment through placing more capital in impactful projects within their community or abroad.

**Increasing Member Satisfaction:** Offering members investment options that are closely connected to creating an environmental or social impact in their community or abroad can increase overall member satisfaction.

**Tapping into a New Market:** Retail impact investment product may be an opportunity for credit unions to attract a new demographic of members that are particularly interested in socially responsible investment products.

- **Posting materials to the internal system (intranet)**, such as publications and articles on the topic or items referencing local developments related to impact investing (See Appendix for an initial list of publications that could be posted on internal sites immediately).
- **Lunch-and-learn presentations on the topic of impact investing**, delivered by in-house staff or by invited representatives from local or national organizations (e.g., potential partners, other credit union staff, or staff from social finance organizations).
- **Inviting local community-based organizations to discuss key financing gaps and challenges within** a specific issue area (e.g., access to finance for new Canadians, emerging social enterprise activity in the sustainable food or renewable energy sectors).

## b. Understanding the Landscape

**KEY STAFF**

*Community Engagement*

An assessment of the landscape will provide examples of relevant or emerging products from the impact investment sector within and beyond Canada. It will also look at general trends and issues that may point to unmet needs or unrealized opportunities and help to identify specific questions that will need to be addressed in the formal planning phases. The assessment should then be linked to the motivations and objectives discovered in the first part of the planning phase.

There are a number of potential sources of information for this assessment:

- **Market Surveys**
  It is important to situate the key trends and issues related to impact investment across Canada. Purpose Capital and MaRS have authored *State of the Nation: Impact Investing in Canada*, which remains a comprehensive market survey and a valuable starting point. *Eight Tracks* by New Market Funds is another helpful report that reviews eight Canadian impact investment funds (including four credit union case studies) and describes their approaches and lessons.
- **Consumer Behaviours and Trends**
  Emerging evidence points to changing consumer preferences in terms of the integration of social and environmental factors in financial decision making and to changing trends around wealth transfer and financial advisory approaches. Becoming familiar with these trends and others will allow staff to identify trends relevant to current members and to identify opportunities for new member recruitment.
- **Product Innovation Examples**
  While retail impact investing is a relatively new sector, examples of product innovations can be found in the community development finance sector in the US, the social finance field in the UK, and the responsible and sustainable finance sectors globally (Appendix A). Impact investment products that are targeted at institutional investors but could be opened to retail investors in the future (e.g., green bonds) is another sector to consider.

> BOX 5.2: **IMPACT INVESTMENT PRODUCT LISTINGS**
>
> ImpactAssets50 (IA50) is an annually updated list for investors and their financial advisors that identifies experienced impact investment firms and explores the landscape of potential investment options.
>
> ImpactBase is a global platform for investors to explore impact investing opportunities and investigate the market landscape across asset classes, impact themes, geographic targets, fundraising status, AUM, and other parameters.

## c. Exploring External Partnerships

**KEY STAFF**

*Senior Management, Community Engagement & Marketing*

Credit unions can leverage their position as community-based financial intermediaries within their regions. Relationships with partner organizations are often a critical component to developing a retail product, in order to identify potential financing gaps or needs, opportunities within specific sectors, or specific community-based groups or organizations that could represent a potential financing need.

The following strategies can guide credit unions in this approach:

- **Build Community-Based Relationship**
  Staff should identify prospective partners in future product development. These partners may include individuals and organizations that provide financing or technical assistance to social impact organizations
- **Engage in Community Events**
  Staff should attend local events that convene actors that are delivering essential or new services to the community, including non-profit organizations, government departments, and private sector

organizations. These can surface new opportunities to connect organizations working on similar issues, but perhaps in their own silos.

- Identify Social and Environmental Sectors: Many new organizations are responding to opportunities in sectors such as renewable energy and energy efficiency, sustainable food and agriculture, and directing technology-based solutions towards emerging social and environmental challenges. Staff should reach out to individuals and organizations that are developing expertise in impact areas that are of interest to the credit union.

BOX 5.3: **ALTERNA SAVINGS AND THE CENTRE FOR SOCIAL INNOVATION (CSI)**

Alterna Savings has a long history of supporting organizations within the non-profit and social impact sectors, with 10% of their member base made up of organizations operating in those sectors. They have created a strong relationship with one of their members, the Centre for Social Innovation, a co-working space for social entrepreneurs based in downtown Toronto. Alterna Savings has supported CSI's growth in a number of ways, including through financial sponsorship, community engagement and sector-building efforts. Alterna Savings is an active member of CSI's online community, and also lead in-person workshops on financial literacy for CSI members.

## PRODUCT DESIGN

a. Validating Investor Demand
b. Assessing Impact Opportunities
c. Determining Product Structure
d. Gaining Approval

The product design phase combines research and feasibility analysis, constructing and testing the different elements of the product, and developing the business case. While we have identified a sequence of steps below, in practice, several of these steps can occur in parallel, or in a different order than described below. Overall, it is important that the product design steps should be an iterative process to examine both the investment opportunities and the investor appetite, and assess the best option for a product structure(s) to connect them.

### a. Validating Investor Demand

**KEY STAFF**

*Product Development and Wealth Advisors*

Research and our interviews suggest that there is significant latent demand among retail investors.[43] The majority of survey respondents claim that they are interested in impact investing, but the number of investors that actually engage in impact investing remains low.[44] While existing credit union members may already have bought into the organizational mission and therefore assumed to be interested in an impact product, this must be further tested and validated.

BOX 5.4: **CREATING IMPACT INVESTOR SEGMENTS**

Money for Good[45] was a survey conducted by Hope Consulting in 2010 to understand US consumer preferences, behaviors, and demand for impact investment products. It identified five different archetypes of investors interested in impact investment, each of which displayed specific preferences around risk, return and impact, as noted below:

- Safety First: "I want to know I'll get my money back and maybe some upside. The social benefits are secondary"
- Socially Focused: "This is a great way to support the causes that are important to me"
- Hassle Free: "If I don't have to look too hard and it's a pretty liquid investment, I'm willing to try"
- Personally Recommended: "A business school classmate is a social entrepreneur. I'm happy to invest in his venture"
- Skeptic: "I keep my charitable giving and financial investments separate. I'm not at all interested"

**WHAT DO RETAIL INVESTORS LOOK FOR IN AN INVESTMENT PRODUCT?** To understand the drivers – that is, why investors choose impact investment products and what they are seeking – market demand research must reach beyond the characteristics of individuals. Drawing on survey data commissioned by a range of organizations, and the interviews for this research, several drivers stand out as reasons for why investors choose impact investing products:

- **Risk**
  For retail investors that are not familiar with impact investing, the high perceived risk has been identified as a major concern. In the relatively volatile financial markets over the last decade, retail investors tend to display a conservative risk appetite, and are concerned with capital preservation and protection of downside risk. Products that provide investors with risk protection are important.[46]
- **Liquidity**
  Retail investors typically value the ability to easily convert their investment into cash.[47]
- **Accessibility**
  Financial products that are easily accessible through financial advisors, brokerages or online platforms are a key factor in investor uptake. However, getting a retail impact investment product "on the shelf" of financial institutions has been difficult because of the points above, as well as competition from conventional products that may seem more lucrative in terms of their product structure, financial return expectations, and risk profiles. Market surveys suggest that individuals seek products that are simple and easy to understand.[48]
- **RRSP Eligibility**
  For many retail investors, RRSP eligibility is an attractive – and familiar – quality that would compel them to make an investment. However, as many of these products are relatively new and may have novel designs, it may not always be straightforward for them to qualify. While it can be possible for many of these products to be part of a self-directed RRSP, the nature of this process and potential fees can act as a deterrent to some investors.

Another consideration is the sector of impact in which investors are most interested. While there is limited data on investor preferences, sectors such as affordable housing, renewable energy and sustainable agriculture are among the impact areas that have been of interest to both institutional and accredited investors. As many of these issues are context dependent – for example, whether the investments are local, or as part of a broader national or global set of opportunities –further research is required on preferences for potential retail impact investors.

**WHAT DO RETAIL INVESTORS BELIEVE ABOUT IMPACT INVESTING?** Investment beliefs are another driver for retail investors, and impact preferences must be added to traditional risk-return considerations when designing, distributing, and evaluating products.

One belief that may be a challenge to impact products is the perception of a tradeoff between financial and social returns, a perception that may be found in both clients and advisors. While this is an issue for all types of investing, many conventional products have been in existence much longer than impact products, which may have relatively short track records. In addition, comparing conventional products to impact products is not always an accurate apples-to-apples comparison given that they likely have different objectives and may display different thresholds around risk, return, and impact factors.

BOX 5.5: **EMERGING EVIDENCE ON THE TRADEOFF MYTH**

One of the most prominent challenges facing impact investing is the notion that there is necessarily a tradeoff when integrating social or environmental considerations within a portfolio or product. There is now a range of compelling evidence to suggest otherwise, and even that impact investments may – when judged against comparable investments in similar asset classes, or product types – outperform through superior returns or lower volatility and risk. Safety First: "I want to know I'll get my money back and maybe some upside. The social benefits are secondary".

- A study by Morgan Stanley of broad strategies around sustainability found that "investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments. This is on both an absolute and a risk-adjusted basis, across asset classes and over time."[49]
- A research note by Merrill Lynch on assessing the opportunities in impact investing noted that, "while various targeted or thematic strategies in the impact space, or certain types of sustainable companies, may provide the potential for alpha or excess return over the market, at a minimum, impact investments can often be used in a client's market based portfolio while preserving risk and return as compared with other market rate investments."[50]
- A study of private equity impact funds in both developed and emerging markets by Cambridge Associates conclude that, "despite a perception among some investors that impact investing necessitates a concessionary return, [...] impact investment funds launched between 1998 and 2004—those that are largely realized—have outperformed funds in a comparative universe of conventional PI funds."
- A study by Wharton used a different data set and technique to arrive at similar conclusions, noting that "the strict dichotomy of strong returns versus strong impact may be unfounded [...] preliminary analysis demonstrates a gross internal rate of return of 12.94% [...]. Early results indicate financial performance is comparable to a Russell Microcap index (PME 0.98) and to an S&P 500 index (PME 1.00) for the time period between 2000 and 2015."[51]

BOX 5.6: **CoPower**

In February 2016, CoPower, a Canadian clean energy intermediary that provides project financing to renewable energy and energy efficiency projects, launched a retail green bond. The 5-year bond – with a $5,000 minimum, provides investors with a 5% annual yield paid out on a quarterly basis. When developing the business case for a retail product, CoPower's executive team validated the demand for a retail product with their existing investor base (accredited investors), wealth managers and individuals connected to clean energy and impact investing networks. Trish Nixon, Director of Investments at CoPower, explained that they "began with a hypothesis that there was untapped demand from individuals for green products that generate steady yields - and that web technology could be a tool to reach a broader segment of investors directly." When raising their first and second private funds from accredited investors, "we saw a lot of excitement from potential investors who were looking for this type of product but at lower entry points. That type of feedback has escalated as we continue to tell the CoPower story. We used secondary research to supplement our conversations."

## b. Assessing Impact Opportunities

**KEY STAFF**

*Community Engagement*

Assessing the impact opportunity can take a number of forms. In some cases, the credit union can identify an external partner that has access to opportunities that require capital (as described in the Oikocredit case study). In other cases, the credit union itself has access to a pipeline of impact investment opportunities within its portfolio. The credit union may also recognize an opportunity to expand its work within a specific sector or thematic area (for example, renewable energy, or sustainable food and agriculture).

While retail investment capital is typically not invested in individual opportunities, there are approaches to construct new products from the existing portfolio (as demonstrated in the Resilient Capital case study). Regardless of the chosen approach, assessing the impact opportunity involves identifying the channel where provision of (retail investor) capital can generate social and/or environmental impact.

**LOOKING INWARD: SMALL BUSINESS AND COMMUNITY LENDING** Credit unions should analyze their community and small business lending programs to assess whether they may already be working with social impact organizations (e.g., non-profits and social enterprises). In evaluating whether the credit union has access to a potential set of opportunities that could form the basis for a product, the following questions can be a good starting point:

- What percentage of loan requests are from non-profit organizations, community organizations, or social enterprise organizations?
- Of the loan requests that are received from social impact organizations, how many are granted? For those that were denied loans, what typical barriers prevented a positive assessment?
- What are the terms on requests (e.g., repayment terms, timelines, collateral)? Do they differ from terms demanded by traditional loan applicants (e.g., small businesses)?
- Is there information that is not readily available from these organizations? Alternatively, are there categories of information that are not integrated within the diligence process?
- Are there examples where these organizations have received financing through the credit union more than once? What are the characteristics of these examples?

**LOOKING OUTWARD: SOCIAL FINANCE INTERMEDIARIES** Many communities often already have social finance intermediaries that operate within their region privately or as part of a provincial or national entity. These intermediaries range in size and sophistication, but can be potential partners for credit unions because they may have already assessed where the critical financial gaps are in local or regional communities. Examples that are worth considering include the following:

- **Community loan funds** exist in many urban centres and typically provide small loans to individual and social sector organizations on favourable terms.
- **Social enterprise loan funds** operate across Canada and have been set up to provide purpose-built debt financing for social enterprises often with technical assistance supports.
- **Community investment funds**, such as the Community Forward Fund and the Canadian Alternative Investment Cooperative, provide a range of financing options for non-profits, charities, and social enterprises and bring deep expertise and access to opportunities.
- **Community development investment funds** (CEDIFs) currently operating in Nova Scotia, Québec, Manitoba, and PEI are part of a capital raising program that allows local citizens to invest in local enterprises directly or through intermediary organizations. In this model, investors are incentivized with a tax credit from the provincial government.
- **Community foundations** are increasingly engaged in a range of social finance activity and could be potential partners to initiate or scale opportunities to finance underserved areas.
- **Non-profit networks**, such as Pillar in Ontario, HubCap in British Columbia, and CCEDNET nationally, can facilitate access to credit unions to potential pipeline partners and sector trends.

**ASSESSING INTERMEDIARY COLLABORATIONS** While some credit unions will have the ability to pull together all elements of a retail impact investment product in-house, many will need to partner with other organizations in order to make the process feasible or more efficient. Partnering is not only about finding new opportunities, but also about efficiency by utilizing the expertise of specialized organizations and advisors.

- **Distribution**
  Calvert Foundation has made significant investments in building and maintaining relationships with brokerage firms and other financial intermediaries

for the benefit of its retail investors. This investment has paid off, as Calvert Foundation's Investment Note has become a successful platform for accessing the retail investor market.

- **Back Office**
  While credit unions will likely manage their own back office functions, they may insist that their community partners (i.e., non-profits or social enterprises) strengthen their organizational infrastructure around financial reporting. Building strong partnerships with financial organizations is thus critical (see box 5.7).

BOX 5.7: **WORKING WITH SOCIAL FINANCE INTERMEDIARIES**

The Toronto Renewable Energy Co-operative (TREC) has established Canada's first community investor administration service, which provides co-ops and non-profits with securities transfer processing, security holder record-keeping, and a streamlined context for member/investor inquiries. TREC is administering over $20 million in debt/equity issue, and has acted as the investment management services company for the community bonds issued by the Centre for Social Innovation and Solarshare.

**ASSESSING INTERMEDIARY COLLABORATIONS**

Our research indicates that credit unions often have a general idea of organizations that they might partner with but are usually keen to understand them better. Successful examples of partnerships (e.g., Assiniboine and MSCU case studies) have required building trust among organizations and being willing to identify mutual benefit with some level of risk sharing. As credit unions assess potential partners, the following indicators are important to look for:

- **Mission Alignment**
  Partners need to understand and have similar motivations. Mutual mission alignment throughout the process will help both parties remain focused and engaged.
- **Credibility and Capacity**
  Evidence of successful operations are indicators of an external partner's capacity to execute a potential partnership.
- **Adaptability**
  Partners need to display a willingness to be flexible to changes in the original product concept, the timeline, and the process.
- **Responsiveness**
  Partners should respond to credit union inquiries in a timely manner in order to maintain momentum and trust during the product development process.

Many credit unions are keen to create products that generate impact and direct capital locally. While this is understandable from a mission perspective, it can be problematic if they are unable to find adequate local impact opportunities. In these cases, it is prudent to look beyond local borders and consider national (Canadian) or global (developing country) opportunities. These can include sectors such microfinance and financial inclusion, agricultural lending, renewable energy, and affordable housing. The Oikocredit/MSCU partnership is an important example in this regard where despite its international focus members have resonated with the impact of providing access to finance to underserved communities and the associated positive impacts on businesses and households.

## c. Determining Product Structure

**KEY STAFF**

*Senior Management*

By deepening their understanding of customer demand and impact opportunities, credit unions can better assess the options for product structuring. In some cases, the structure of the product will be clear from the initial planning phase, while in other cases, the structure may evolve to match investor and organizational preferences. While most considerations for determining product structure are the same as those for developing conventional investment products, there are additional dimensions relevant to retail impact investment products.

**ASSESSING FINANCIAL FEASIBILITY** Many of the dimensions of assessing financial feasibility for a retail impact investment product remain the same as conventional products. However, there can be some additional considerations that impact on financial feasibility, as we note below:

- **Revenue Potential**
  In some cases, the revenues associated with retail impact investment products have been lower than conventional investments. These products have historically been relatively niche and targeted to specific investor segments, although recently these products have reached a broader audience.
- **Assessing Costs**
  While our research indicates that the costs of developing and deploying retail impact investment products can be higher than conventional products, this is not always necessarily the case. Additional costs that may need to be considered, can include risk assessment, developing impact measurement

and reporting systems, technical integration within IT systems and internal reporting processes, or customized marketing materials.

- **Risk Assessment**
  There may be additional costs involved from risk assessment due to the nature of underlying assets (e.g. nonprofits or social enterprises who are reliant on government funding), or the nature of the product or sector (e.g. where there is limited track record within an emerging sector such as previously was the case in renewable energy).
- **RRSP Eligibility**
  Retail impact investment products do not automatically qualify for RRSP eligibility, and there are examples where product issuers have used alterative mechanisms. For Canada, two notable examples are Solarshare and the Centre for Social Innovation, which have explored the use of self-directed RRSPs, working with financial intermediaries, and creating a product under specific regulatory exemptions. The costs of these types of variations may include additional direct costs for product issuers or distributors, or for credit union members.

**ASSESSING RISK** The credit union must consider non-financial risks specific to impact investment products, which can include – and also go beyond – risks of conventional product development. These risks can be non-traditional, and there may be a lack of standard tools for their measurement. Examples include the following:

- **Investment Risk**
  For impact investment products in which the credit union commits risk capital, the credit union will need to do an investment risk assessment to determine the probability that the credit union could lose all or part of its investment. One key element should include execution risk, especially for new partnerships or innovative structures. Lenders in the commercial credit department can undertake a risk assessment to provide information to management and the Board. Collateralization or the application of loan loss guarantees may minimize the risk. Pooling a number of these investments together can also create a diversified portfolio that can minimize risk.
- **Social Impact Risk**
  While there are several definitions of social risk, it can be defined as "the risk that an institution's investments might alienate key stakeholders and/or compromise the values of the organization."[52] While this is arguably a facet for all credit union products, developers of impact investment products should be aware of potential challenges of inadequate or negative impact results. Some strategies to mitigate social impact risk include clarifying objectives and motivations, understanding customer demand, and designing impact measures with sector experts and community partners.
- **Reputational Risk**
  With the introduction of retail impact investment products, credit unions may be seen to be "greenwashing." In the course of our research, some interviewees noted that introducing a new retail impact product might lead members to question whether the rest of their deposits in the credit union were invested in ways that were not consistent with their values. To mitigate this risk, clearly communicate how the credit union's range of products align with its mission. It is also always important for credit unions to be transparent, honest, and conservative in their reporting.

**LEGAL AND REGULATORY CONSIDERATIONS**[53]
The legal and regulatory considerations for developing retail impact investment products are largely the same as they would be for conventional product development, though they can also be more complicated depending on the product structure. While the regulatory regime has evolved over time, a primary principle is to protect investor interests and assets. As a result, significant time and effort is required for due diligence and reporting, in order to comply with existing regulations around the design and issuance of products. This is particularly true for retail products, with an emphasis on disclosures of the features, risks and costs.[54]

One of the key concepts in understanding the legal and regulatory framework for impact investments is the distinction between securities and banking products. Offerings of stocks, bonds, mutual funds and other kinds of public market investments and private placements are defined as securities, and regulated under provincial securities acts and regulations.[55] The public policy aim is to protect investors and enhance the efficiency of the markets.

This is distinguished from products offered by banks and credit unions, such as term deposits or guaranteed investment certificates on the savings side, and personal and commercial loans on the credit side. Unlike offerings of mutual funds, stocks and bonds, which are regulated under securities rules, credit union products are regulated by provincial credit union regulators. They are not considered securities.[56] The public policy aim is to avoid systemic risks.

There are important reasons why savings products offered by banks and credit unions are under a different regulatory regime. Term deposits and GICs are subject

**TABLE 5.1: SELECTED RISK FACTORS AND DE-RISKING STRATEGIES**

| PERFORMANCE EXPECTATION | RISK FACTOR | FINANCIAL INSTITUTIONS | RETAIL INVESTORS | DE-RISKING STRATEGY |
|---|---|---|---|---|
| Capital preservation, at a minimum, in either real or nominal terms | Capital risk | Lack of clarity about whether competitive risk-adjusted financial returns are widely achievable has led to a focus on limiting downside. | Generally, wealth is for retirement purposes or for the next generation, making capital preservation, at a minimum, a priority. | **Downside Protection**<br>• Collateralization<br>• First loss / Guarantees<br>• Insurance<br><br>**Bundling**<br>• Diversification through a multi-asset portfolio<br>• Diversification through a range of investments that are of the same asset class but create exposure to sufficiently diverse sectors or geographies |
| Transaction costs in proportion with potential returns | Transaction cost risk | Require sufficiently large capital outlay to justify expenditure on due diligence, structuring and management of impact investments. | Require transaction costs to be sufficiently low so as to be in proportion to smaller investment. | **Bundling**<br>• Scale through a multi-asset portfolio<br>• Scale through a range of investments that are of the same asset class but create exposure to sufficiently diverse sectors or geographies |

Source: Bridges Ventures and Bank of America

to Canada Deposit Insurance Corporation guarantees and credit union savings products are subject to credit union deposit insurance in the province in which they are located. This provides a level of safety to the investor that is not found in securities. The reason that they qualify for deposit insurance is that they are backed by the balance sheets of the credit union or bank and the bank or credit union is required to put up a portion of its own capital to support these products. As a result, they are deemed to be low-risk investments suitable under the Income Tax Act for RRSP, TFSA and RRIF accounts.

This has important implications for impact investment products offered by credit unions. In order to be deemed compliant by credit union regulators, impact investment products must be categorized as a credit union product, and not as a security. To illustrate, refer to the MSCU/Oikocredit case earlier in this paper:

- The key concept that was communicated to DICO (Deposit Insurance Corporation of Ontario) was that it was the credit union itself that was taking on the risk, and not the retail investors. The retail investors place funds in a term deposit that was not directly invested into Oikocredit International. MSCU supplies matching capital that would be invested into Oikocredit International directly. The decoupling of risk between the investor and the investment in Oikocredit International allowed the regulators to confirm the product qualified for deposit insurance.

The fact that the underlying investment in the impact product is backed by the credit union is crucial to this type of impact product. This does not mean that this is the only way of structuring impact products. For example, the relationship between the Jubilee Fund and Assiniboine Credit Union described earlier represents another possibility. Overall, each credit union will have to identify the specific regulatory and legal considerations that apply to its specific choices.

That said, recent developments in the financial industry have opened up new opportunities for developing and deploying retail impact investments, and two relevant examples are noted below.

- **Equity crowdfunding** is the offering of unregistered securities through a registered funding portal/platform to raise small amounts of money from a large pool of non-accredited and/or accredited investors.[57] Certain provinces in Canada now have updated guidance and specific exemptions, as noted in the Start-Up Crowdfunding Exemption (May 2015), and the Integrated Crowdfunding Exemption (January 2016).[58] These regulations could uncover new opportunities for retail impact investing particularly for product issuers and credit unions.

- **Community bonds** allow nonprofit organizations to raise capital from a pool of investors, and issuing a community bond is often linked to the purchase of an asset (such as a building). For many nonprofits, the costs of developing and issuing a community bond can be significant, and will require access to specific financial and legal expertise. However, there are now several examples of community bonds across Canada (notably the Centre for Social Innovation, Solarshare and Zooshare), and credit unions have played a facilitation role in some of them. There are also additional resources to help nonprofits, including a community bond guide and templates from the Centre for Social Innovation,[59] and publication on community bonds within the BC context.[60]

BOX 5.8: **SOLARSHARE QUALIFIED INVESTMENTS**
SolarShare has created a set of option to make its product accessible for retail impact investors, and eligible for RRSP, RESP and TFSA. It has commissioned an independent legal opinion that Solar Bonds are qualified investments under Regulation 4900(1)(j) of the Income Tax Act that are available on its website.[61] It has also developed two pathways that retail investors can use in order to confirm RRSP eligibility, which are noted in the diagram below. The first it is via a self-directed RRSP/RESP/TFSA, which includes a series of steps to fill out documentation with a broker. The second is through opening an RRSP account administered by the Canadian Worker Co-op Federation (CWCF), which holds the bond on behalf of a retail investor with trust agent Concentra Financial.

**MEASURING IMPACT** Impact measurement is an important component that distinguishes retail impact investments from conventional products. Impact assessment and reporting remains a key challenge for investors, and while there are an array of emerging approaches, there is no consistent standard being used for retail impact investment.

It is important to articulate how impact will be generated through the product, and examples include:

- Providing products or services that provide a positive benefit to a target population group (e.g. providing access to healthy foods at a lower cost for a low-income community).
- Providing employment to a target population group that would have otherwise been unable to access it (e.g. integrating people with mental health barriers into accommodated employment within a supply chain).
- Providing products or services that reduce the negative costs borne by communities or the environment (e.g. discovering a more efficient process for re-using discarded building construction materials).
- Providing products or services that positively influence an entire sector/system (e.g. creating new technology that reduces the cost of recycling for all companies in the sector).

Each of these strategies has a different set of objectives and goals around the nature and magnitude of the impact that is being created. In practice, approaches and standards around impact measurement have not yet been well developed nor consistently applied, within Canada or globally.[62] However, there are now several examples of trends, approaches and standards that are gaining traction for impact investment:[63]

- At the global level, several **impact assessment and reporting standards** are being commonly adopted among impact investors (see box 5.9). There is increasingly an emphasis towards the use of shared language in describing social and environmental impact (e.g. using IRIS), systematic assessment of performance at the company (e.g. using B Corp) and fund level (e.g. using GIIRS), and incorporating dimensions around materiality (e.g. as demonstrated in SASB).
- **Thematic measurement approaches** are becoming influential, as they can provide common measures that are comparable within a sector, and also allow for benchmarking among peers; one notable example is microfinance and the work of the Social Performance Task Force. There are also examples of multi-sector initiatives that have gained adoption among specific investor segments, such as the the UN-backed Principles of Responsible Investing for institutional investors, and the Global Reporting Initiative for corporations.
- Information on **environmental, social and governance (ESG) factors** are becoming more readily accessible and used, as they are increasingly shown to be material and for investors.[64] Prominent sources of ESG information for institutional investors include Bloomberg, Sustainalytics, and MSCI. In some cases, social and environmental measurement factors have some overlap with the measures that are being used for impact investment, through the are often important differences to consider.
- **Qualitative and anecdotal information** on individual and community beneficiaries has tended to be an important component of impact reporting efforts in impact investing. These can take the form of customized impact criteria on how individual companies within a portfolio are achieving their financial and impact objectives, as the Resilient Capital Program at Vancity has done. There are different levels of analysis involved, and as an example, RSF also seeks to understand how its engagement with

BOX 5.9: **SELECTED EXAMPLES OF IMPACT MEASUREMENT APPROACHES FROM CASE STUDIES**

- RSF Social Finance has created a questionnaire that focuses on understanding: a) how a social enterprise views and assesses its own impact on the community; b) how transformative an enterprise's practices are with regard to people, place, and the environment; and c) how working with RSF has informed or changed the organization's understanding of the role of money. These scores are then aggregated into an overall portfolio score that translates impact to investors.
- For each investment through the Resilient Capital Program, Vancity together with the business being financed jointly establishes a set of impact indicators that are unique to the focus area of each investee. This ensures shared buy-in and ownership over impact reporting, and helps the business to measure its own progress. Vancity offers support if needed, and maintains provides quarterly and financial reviews to investors.
- Calvert Foundation collects social and environmental performance data from each of its portfolio investments using a custom Social Performance Measurement Report template that incorporates industry-aligned indicators such as IRIS and the US CDFI Fund. Calvert Foundation combines these quantitative metrics with testimonials and stories collected from investees in an annual Social Impact Report for partner organizations and investors.

BOX 5.10: **SELECTED STANDARDS AND APPROACHES**

- **Impact Reporting and Investment Standards** (IRIS) - IRIS is the catalog of standardized metrics that allow impact investors to measure social, environmental, and financial performance. IRIS metrics provide a shared taxonomy where investors can identify, use and report on common measures.
- **Global Impact Investing Rating System** (GIIRS) – GIIRS is a rating system (similar to Morningstar or S&P rating) for businesses and funds, and focuses on social and environmental performance. It allows investors to access comparable and third-party verified data on social and environmental impact.
- **B Corp Impact Assessment** – B Corp is a certification issued to for-profit companies by B Lab, and assesses performance of the company in areas of governance, workers, community, the environment, as well as the product or service the company provides.
- **Sustainability Accounting Standards Board** (SASB) – SASB develops and disseminates sustainability accounting standards that help public corporations disclose relevant and material information to investors. The standards allow for performance comparison and benchmarking.
- **Social Return on Investment** (SROI) - SROI in a principles-driven approach to measurement that translates social and environmental outcomes into tangible monetary values. It seeks to compare the social value being generated by an intervention, and the investment required to achieve that impact.

an organization changes its understanding of the role of money within its local community. If possible, organizations should combine qualitative and quantitative data across their portfolio, as Calvert does in its reporting and annual Social Impact Report.

## d. Gaining Approval to Proceed

By this stage, a strong understanding of the product design elements should be in place, as well as initial understanding of the internal requirements for creating and launching the product. During this phase, the product development team would work on building the business case and preparing a presentation to the Board of Directors or Board Committee to gain approval to move forward to refining and launching the product.

At this stage, our research has noted that two important issues should be addressed:

1. **Board/Management Education**
   In the majority of cases we have researched, the Board and senior management teams have been previously exposed to impact investing. This exposure has either come through previous board education sessions, conferences and information sessions. It will be important to progressively engage the Board and Management on the key elements of impact investing, in advance of the presentation.
2. **Satisfying Regulatory Requirements**
   Given that this product may be unfamiliar, the Board will likely have questions on the regulatory requirements for the product. The credit union's legal team should be able to provide a strong rationale and supportive evidence to support this.

**PRE-LAUNCH**



Many of the general components of pre-launch for impact products mirror conventional products and do not need to be reiterated here. Further, issues related to retail impact investing tend to be product specific, so they cannot be generalized. For this reason, in this section, we provide guidance based on the cases and interviews conducted in our research.

## a. Coordinating Internal Processes

**KEY STAFF**

*Wealth Advisors, Finance/Treasury, Marketing/Communications, External Partners*

Successful strategies for internal coordination have included at least two major components:

1. **Securing Executive-Level Buy-In**
   Where staff recognize that this product is a priority for their leadership team, there will be greater momentum during the process, and capacity to overcome any challenges. This was illustrated at MSCU, which was successfully launched the Oikocredit Global Impact GIC in a relatively short time period largely due to executive-level support for the initiative.
2. **Identifying Champions**
   The product development team should engage a lead in each department to streamline activities and to ensure accountability. At the same time, an executive-level champion should retain high interest and visibility during this process, and identify opportunities for organizational innovation.

**CONFIGURING INTERNAL SYSTEMS** To the extent possible, retail impact investment products should be integrated into existing technical processes and systems. For example, launching a GIC product would be a relatively straightforward process; whereas constructing a product with new templates may require custom systems and tools. One area where additional work may be required regardless would be around impact performance and reporting. However, like any other product, if staff are required to perform extra responsibilities to administer the product, it is less likely that they will be motivated to offer the product to clients.

## b. Developing a Marketing Strategy

A marketing strategy encompasses many different elements, so for the purpose of this section, we will keep a tight focus and look only at communication messages and approaches for marketing the retail impact investment product. Examples of potential strategies and actions around a marketing strategy have included the following:

1. **Clearly Identify the Value Proposition and Differentiator**
   A primary selling point of a retail impact investment product is the opportunity that it provides to members to align their values and beliefs with their investments. While this value proposition may be implicit for credit union members, it is important to make it explicit, and to distinguish how this specific product is different from a comparable product. It is also important to extend the value proposition beyond value alignment into other messages, such as the opportunity for portfolio diversification.
2. **Clarify Positioning of Product Within Broader Product Suite**
   Credit unions will offer a range of products that align with member preferences and values, and the retail impact product should be situated within the broader suite. For example, many credit unions offer socially responsible mutual funds, and members should be aware that they can hold both kinds of products (i.e. they are seen to be complements, not substitutes). In some cases, however, products that are 'new' to members – such as a community bond – will require additional education on the product structure embedded within marketing materials. For other products – such as an impact-focused GIC – there will likely not be a need to educate the member on the product structure, but rather the differences (if any) around risk and return from conventional products.
3. **Identify Potential Segments of Target Members**
   Retail investors are diverse. Some investors care more about risk mitigation than they do about track record of success or strong financial returns. Others will be concerned more about addressing causes that they care about. Understanding the motivations of retail investor is key to developing

the marketing strategy. Segmentation of the investors will help to target the market. However, it is also important to recognize that the credit union cannot target too many segments at the same time, as there is a risk of sending conflicting or confusing messages about the product.

4. **Distinguish Between Marketing Strategies for Existing and Prospective Members**
   Marketing teams should leverage social media portals and community events that attract the types of investor segments identified as most likely to buy the retail impact product. Credit unions may be able to expose their existing members to retail impact products more easily, as they are already bought into the organization's mission and existing product(s). In this case, there is an opportunity to strengthen member retention and uptake, and marketing teams may appeal to these existing impact preferences (since they are known), or choose to reassure members around risk considerations. On the other hand, prospective members may require more information in order to both assure them of the impact considerations (as a potential differentiator), and placate any concerns around product structure (such as the risk/return profile, or fit in a portfolio).
5. **Creation of Marketing Collateral**
   Creation of the brochures, website and online content, and other materials, such as posters and brochures are critical to gaining investor commitment. For most impact products, marketing will be "narrative-led" rather than investment-led. This means that investors will be looking for the stories that validate their initial impression that this is a high impact investment. One effective way of communicating impact is the use of visual images of the end-beneficiaries of the impact investment, along with short narrative captions. Videos should also be considered, especially for the credit union's website or social media campaigns. In addition to narratives, comprehensive statistics on broad social and environmental impact can also be effective in communicating that the impact investment has achieved scale in the changes it has made.

## c. Developing a Sales Strategy

It is often said that, *"investment products are sold, not bought"*. This perspective explains why the sales strategy is a critical part of the product development process. While there are many elements of a sales strategy, in this section we will focus specifically on the importance of educating and engaging financial advisors, investment advisors and financial planners, as well as any frontline staff that may engage with members (hereby referred to as the "sales team"). Examples of potential strategies and actions around a sales strategy have included the following:

- **Familiarize Financial Advisors with Concept and Product**
  The product development team should educate the sales team on impact investing, as well as the product design features. As with the marketing material, narratives and comprehensive statistics will be crucial for making sales staff effective ambassadors of the product. If the sales team has not had significant prior experience, the team may require a general overview of socially responsible and impact investment, building on the content presented in earlier chapters. The sales team will also require education about conventional product-specific information (risk, return, term, liquidity, etc.), and the impact dimensions associated with the product. For certain retail products that have a sector focus, such as microfinance or solar energy, sales staff will need a fundamental understanding of the sector (such as describing the business models driving the return for investors, and how impact is created within the sector), which can be obtained through in-house research, or by bringing in external expertise. Sales staff will also want to know about compensation arrangements and how to communicate fee structures to members.
- **Examine Where Product Could Fit in a Customer Portfolio**
  As impact investing can occur across asset classes, it is not always clear where an individual product fits in a portfolio. For example, a product that provides fixed-term loans to social enterprises may be allocated in the 'alternatives' category rather than fixed income, as the underlying assets are non-conventional. Another example is that many retail investors have conservative or balanced profiles, which would limit the allocation that investors would make to private equity investments. The role of impact investments within portfolios is an emerging area of study,[65] but each investor will have different approaches that suit their individual needs.[66] For example, some members may want to 'carve out' their impact investment allocation (e.g. a target number such as 5% or 10%). Others will be interested in allocating part or all of their investments within a specific asset class to impact (e.g. private equity to social enterprise investments, or real estate to affordable housing funds).

- **Discuss how to Situate the Impact Product Within Client Interactions**
  The Know Your Client (KYC) process in financial institutions do not typically examine impact preferences, but some credit unions have adapted their practices to capture preferences for local or thematic investments. While each institution has a different approach, it may be useful to draw on research conducted in the UK on how a discovery process template and questions can assess whether clients could be considered for impact investments (see box 5.11). Beyond the KYC process, when sales staff have members recommend products, they will have to assess the suitability requirements for the specific client situation. Beyond conventional practices, they will have to consider the unique member preferences around impact considerations, in terms of how this is assessed, how it is achieved, and how it correlates with risk considerations.

BOX 5.11: **AN EXAMPLE OF THE CLIENT DISCOVERY PROCESS**

As part of research commissioned by NESTA in the UK, a discovery process template was constructed along with a set of questions to be able to assess whether clients could be considered for social investments.[67] We include the template and associated questions below as a guide for credit unions, the sector, or regulators to consider adapting and using.

- **Question 1** is based on research published by Nesta that identified key indicators of an interest in social investment. There are three sub-questions, and if any of them is answered positively it would indicate a potential interest in social investment. These were viewed by financial planners as permission questions to indicate whether it was worth asking more about specific areas of interest. Some financial planners thought that all clients would 'want their money to do some good as well as provide me with a return'; others thought that a relatively low proportion of clients would answer this question positively.
- **Question 2** is aimed at finding people that have acted on their ethical values within existing investment decisions.
- **Question 3** makes use of the finding that people who have allocated some of their time to community activities are more likely to be sympathetic to the notion of allocating some of their wealth to social investment.
- **Questions 2, 3 and 4** enable the client to indicate areas of social need and geographic regions in which they have some empathy. Many financial planners recognized that clients who have an interest could have reasons for interest in causes and places that they would not previously have known from discussions.
- **Question 5** is a key question because at a high level it is identifying whether the client would like to be presented with investments that may involve a sacrifice of income or capital in order to achieve the social objective.

| Question |
|---|
| **Q1.** Ask the client whether they either[1]:<br>• **Strongly agree**<br>• **Tend to agree**<br>• **Neither agree or disagree**<br>• **Tend to disagree**<br>• **Disagree**<br><br>**1. When investing, I would like my money to do some good as well as provide me with a return.**<br>**2. My investment portfolio reflects my ethical values**<br>**3. I like to be actively involved in local community activities**<br><br>*If there is agreement with any of these statements, then ask the following four questions:* |
| **Q2.** Are there any areas of social good that may interest you? (The list below is not exhaustive – tick all that apply.)<br>• Microfinance (small loans to individuals so that they can start to trade)<br>• Social housing or regeneration<br>• Rehabilitation, e.g. working with ex–offenders, addicts<br>• Employment opportunities (e.g. home- less, disabled people, youth, etc.)<br>• Environmental (e.g. renewable energy, forestry)<br>• Local community projects<br>• Young people (e.g. education, children in care, skills training, etc.)<br>• Rehabilitation, e.g. working with ex–offenders, addicts<br>• Ethical consumerism (e.g. Fairtrade)<br>• Other (please specify) |
| **Q3.** Are there any areas of social good which are of particular interest or that you particularly identify with? |
| **Q4.** Are there any areas of the world that you are interested in influencing (tick all that apply)?<br>• Americas<br>• UK<br>• Asia<br>• Europe<br>• Australasia<br>• Africa<br>• Middle East<br>• Other (specific regions or countries) |
| **Q5.** Social/community investments may not give the same financial returns as 'traditional' investments. To what extent are you willing to sacrifice some financial return for achieving social good?<br>**A.** Lower income compared to a similar conventional investment<br>**B.** No income – all used by social enterprise<br>**C.** Potential loss of capital |

Source: NESTA (2012) Financial Planners as Catalysts for Social Investment, Appendix G

[1] The research provides important context on this first question: "From previous research among high net worth individuals into the motivations behind a wealthy individual becoming a social investor, we know that there is a correlation between the level of agreement with the three statements below and the likelihood of engagement with social investment. The most statistically significant questions for a financial planner to establish which of their clients will be most receptive to this investment opportunity are the following statements".

## PRODUCT LAUNCH

a. Issue press release to targeted markets
b. Convene events to provide detailed information

## a. Issue Press Release

**KEY STAFF**
*Marketing*

As with any new investment product, issuing a press release is a key component of the product launch. But there are some unique considerations for retail impact investment products. First, it is important that the press release targets the segments identified in the marketing strategy. These segments will be more specialized than the market segments for conventional products. Credit unions will have to do some additional work to identify the right contacts for the press release. Partner organizations may be able to provide access to some of these contacts. For example, Oikocredit promoted the release with its press contacts, resulting in positive media coverage in Now Magazine in Toronto. Advertising space was also purchased in Your Guide to Responsible Investing, a regular supplemental magazine in Investment Executive and the Toronto edition of the Globe and Mail.

The table below identifies some key organizations and publications that could assist with the product launch.

| NON TRADITIONAL MEDIA PARTNERS |
|---|
| Responsible Investment Association – (online network) |
| The MaRS Centre for Impact Investing |
| Socialfinance.ca |
| Canadian Credit Union Association's Monthly Newsletter |
| Other Trade Publications |

## b. Convene Events & Use Social Media

**KEY STAFF**
*Marketing & Community Engagement*

### INFORMATION SESSIONS

An effective strategy for promoting a retail impact investment product and for engaging with potential investors is to host information sessions. These sessions could be specific to the retail impact investment product, but could also include more general information around a broader range of retail impact investment products. For example, when launching its second bond, the CSI team hosted a community bond fair. To share the costs of hosting such events, credit unions should look to community partners and other credit unions that are promoting similar products. For example, CSI worked with Zooshare and Solarshare to deliver information on impact investment options to individual investors. The joint session exposed CSI to a wider market of potential investors.

### LEVERAGE CREDIBILITY AND HISTORY

While launching the first product will require investment to reach new audiences, subsequent retail impact investment product launches will be able to draw on an established reputation and networks by leveraging testimonials from investors and community members.

**POST-LAUNCH**

a. Investor Engagement
b. Community Engagement
c. Reporting

## a. Investor Engagement

**KEY STAFF**
*Wealth Team & Marketing*

Investor engagement is important for encouraging existing investors to renew their investments. It is also important for attracting new investors to the product. Investor engagement requires a deeper set of activities than the marketing strategy; investor engagement requires building trust and reputation with investors.

Engagement for a retail impact investment product also requires greater effort than engagement for a conventional product. In particular, staff will need to communicate with investors about the social impact, as well as the financial performance. To effectively communicate social impact with investors it will be important to translate the financial and social performance measures into a format that is easily understood by investors, and that can be reported in a consistent manner over time.

One way to achieve this is through the use of narratives. Constructing narratives to communicate impact with investors was identified as a consistent theme across all products that are profiled in this guidebook. Stories about the investee organizations, projects and the individuals that benefit from these investments help to connect the investor with the impact of their investment.

With some impact investments, investors can be invited to become directly engaged with the underlying social enterprise. This might include shopping at a retail outlet or becoming a member of a social enterprise financed by the investment. For example, investors in the CSI Community Bond receive a complimentary CSI Community Membership.

It will important to ensure that investor engagement is informed by the member segments that were identified in the marketing strategy. For example, some investors may be more interested in financial performance than others, and as such, the credit union's engagement strategy should be flexible. This might require dedicated staff to respond to individual investors' questions, and targeted engagement strategies for different investor segments.

Table 5.2 provides an overview of engagement strategies we have seen deployed by other retail impact investment issuers.

**TABLE 5.2: ENGAGEMENT STRATEGIES**

| ENGAGEMENT STRATEGY | Key Components | Organizations Employing this Strategy |
|---|---|---|
| **INVESTOR WEBSITE** | A private website for investors to receive up to date information on the financial and impact performance of their investments. These sites can mirror the look/feel of conventional products, or be customized to reflect the unique information for the impact product, especially around impact reporting. | Vancity, Calvert Foundation, Affinity Credit Union, Solarshare; RSF Social Finance |
| **QUARTERLY NEWSLETTERS** | Newsletters that provide investors with information on the investments' social impact, and opportunities to engage with investees and community partners. Newsletters generally have presented the impact through anecdotes and vivid storytelling, and supplemented by some quantitative metrics if available. | CSI, RSF Social Finance |
| **IN-PERSON MEETINGS** | Structured meetings with investors conducted on a regular basis that provide a personal connection to the product, and its financial and impact performance. | Jubilee Fund/ ACU, RSF Social Finance |
| **INVESTOR GATHERINGS** | Meetings that bring together investors in the retail impact investment product. Meetings can have varying agendas and can be a forum for open discussion or can be more structured, such as discussing emerging issues related to the target sector(s) for the product. | RSF Social Finance |

BOX 5.12: **COMMUNITY BOND INVESTOR ENGAGEMENT**

In 2015, The Centre for Social Innovation (CSI), a non profit organization based in Toronto, Ontario, issued its second round of retail community bonds to purchase a second co-working space in downtown Toronto. During and after the initial round of bond issuances, CSI set up a community bonds website and a community bond-specific email account. Through the website, current and potential investors were able to learn about the activities and impact of CSI. CSI's specific community bond email address serves as a medium for investors to reach staff with inquiries and to provide feedback.

## b. Community Engagement

**KEY STAFF**

*Marketing & Community Engagement*

Community engagement is necessary to collect feedback from community partners and investees to understand how the retail product is meeting their needs. Community engagement can also be used to validate impact reporting and to identify new potential community partners and investees. The form of community engagement will depend on the credit union's goals, the scope of its retail impact investment product (i.e., the investees) and the structure of the credit union's community relationships. Similar to the investor assessment, feedback can be collected in-person through a structured conversation or online through a designated web portal or email. Drawing on the experience of the six cases profiled in this guidebook, we identified four different approaches to community engagement:

1. **Targeted Community Engagement**
   CSI's community engagement is targeted at the organization's own members. Given the structure of the retail impact investment product, which was used to finance the purchase of a building to be used by CSI members, this form of targeted engagement was most relevant to CSI.
2. **Relationship Managers**
   RSF Social Finance relationship managers identify loan opportunities, and strengthen relationships with current and prospective borrowers. Each manager focuses on a specific area and builds subject-matter expertise that supports the evaluation of new loans and projects.
3. **Broader Community Engagement**
   The Jubilee Fund provides financing for social impact organization. Key strategies for engaging with the community include participation in community meetings, extensive brand promotion to individuals and organizations and the development of partnerships and strategies with other key community funders, including foundations, government programs and grants providers.
4. **Building a Movement**
   The Oikocredit Canada Central support association invites all investors in the Oikocredit Global Impact GIC to become a member of the association and to support its work. This encourages investors to think of themselves as members of a movement, not just passive investors in a financial product.

## c. Reporting

**KEY STAFF**

*Senior Management*

Credit unions should integrate the financial results and impact of the product into their reporting. Reporting is a core component of internal management and accountability. Reporting will allow the credit union to reflect on and to improve its product development. Reporting will also allow credit union staff to make the case for greater investment in developing the product, or in developing new retail impact investment products. Reporting on the product also provides an opportunity to demonstrate the credit union's leadership and commitment to impact investing to its external stakeholders. It is important to recognize that this type of reporting is about more than marketing; it is also way to build trust and loyalty among existing members and new members.

There are a number of reporting platforms where credit unions should consider reporting about the retail impact product, including:

- The corporate social responsibility section of the credit union's annual report;
- The credit union's sustainability report, if separate from the annual report; and,
- External reporting initiatives to which the credit union belongs, such as the Global Alliance for Banking on Values or the UN-backed Principles for Responsible Investment.

Ideally, credit unions will be able to integrate their reporting at multiple levels, in order to prove that they have achieved a level of financial and social performance, but also to use this data to improve strategic and operational decisions. The table (5.3) below from TriLinc Global describes how they combine a series of measurement approaches and tools to systematically track, analyze and report on their impact.

**TABLE 5.3: TRILINC IMPACT MEASUREMENT ENGINE (TIME)**

| TRACK | ANALYSE | REPORT |
|---|---|---|
| **Identify Measurable and Meaningful Impact Objectives**<br>• Metrics selected to track progress towards investment-specific economic, environmental and social impact objectives<br>**Create Easily reportable Data Collection Screens and Forms**<br>• Screens employed during investment due diligence<br>• Initial and annual data collection incorporated into the sub-advisor underwriting process | **Incorporate Metrics into Portfolio Management Platform, eFront**<br>• Impact metrics reviewed alongside financial metrics to assess both aspects of an investment's performance<br>**Aggregate Data to Measure Progress against Impact Objectives**<br>• Impact dashboards customized to analyse date by industry, sector and individual investment | **Produce Quarterly and Annual Reports**<br>• Quantitative impact results reported through portfolio management platform<br>**Contribute to the Standardization of Impact Measurement**<br>• IRIS metrics reported through various impact industry channels<br>• Collaboration with industry leaders on refining best practices |

Source: Nelund and Trant. Creating and Distributing Impact Products for Retail Investors.[68]

# CHAPTER 6 LESSONS AND PRIORITIES FOR RETAIL IMPACT INVESTING

As impact investing continues to gain traction, retail impact investing presents an emerging and untapped set of opportunities. Credit unions are well-positioned to use retail impact investing to differentiate themselves from other financial institutions, provide innovative product opportunities for their existing members, attract new members seeking to integrate social considerations in investment decisions, and strengthen their link to their respective missions.

Responding to the need within the credit union sector, this guide attempts to identify the key considerations for credit unions that are interested in retail impact investment. This guide provided examples of retail impact products, and offered these case studies to provide lessons and inspiration for product development. It is also clear that there will be a need for product innovation in this area, as well as a more supportive enabling environment, to make it easier for credit unions to develop and launch these products.

In this section, we describe strategies for how the credit union sector can catalyze the development of new products and innovations – either as individual credit unions, or working collectively across the sector. We begin by summarizing the key lessons from successful models, and propose a set of actions that could be undertaken to advance retail impact investing in the credit union and social finance sectors.

## Lessons from Successful Models

a. **Strong Alignment with Credit Union Objectives & Mission**
A clear set of motivations and objectives is critical. In the credit union context, there can be an assumption that retail impact investing is a fit with mission; this is not always true nor obvious, as there are many potential options around the nature of product selection and development. It is important to be clear how this alignment exists. As described earlier, each of the profiled organizations within the case studies had clear, but somewhat different motivations and objectives.

b. **Solid Rationale and Business Case**
As with any other product, credit unions must make a strong case for retail impact investment products amongst competing opportunities and demands for the credit union. It is also important to consider the opportunity costs (i.e. the costs of not doing this), especially where broad member and societal trends would seem to favour these opportunities, and that it provides credit unions with a novel way to differentiate themselves and attract new members. Calvert Foundation's journey in this area provides an illustrative example of why this is essential.

c. **Visible and Engaged Leadership From an Internal Champion**
Like many other organizational strategies, developing retail impact investment products requires a strong internal commitment that can bring together the relevant teams and individuals in a coordinated manner. It is powerful when this leadership is from the highest levels, and maintains high visibility. Many credit unions we spoke with have clearly expressed interest in retail impact investing, but recognize that the competing interests internally may favour other initiatives. As such, having an internal champion to galvanize action, as the case of MSCU demonstrates, is vital.

d. **Strong Internal Coordination to Maximize Buy-In**
As retail impact investing is still a novel idea for many credit unions, it will require the buy-in of several departments, and it will require that staff go beyond what is required for a typical product. The challenge is bringing these groups together to work collaboratively, even if it is not clear at the outset what the final product may look like. It is even more important to do this well if the group expects to face barriers that the organization has not experienced in the past. This was illustrated by the experience of various team members in Vancity's Resilient Capital Program.

e. **Partnerships with Existing Funds or Organizations**
It is often the case that partnerships will be critical to identify the impact opportunity. A high level of trust is required among the external partners and the credit unions, and common objectives and shared success measures. Building trust involves

multiple conversations– in order to discuss options to move forward, identify individual and mutual concerns, and solidify a commitment to overcome them together. The partnership between the Jubilee Fund and Assiniboine Credit Union is an illustrative case, where a stated commitment to collaborate was key.

## Catalyzing Retail Impact Investing

In this concluding section, we identify four priority areas to catalyze retail impact investment among the credit union sector in Canada. Within each area, we identify potential strategies and activities that could be undertaken by credit unions individually or collectively, or by broader sector networks and intermediaries within the credit union and social finance sectors. While these priorities are most directly relevant to the credit union sectors, it will be important for credit unions to engage the broader social finance community across Canada.[69]

For those priority areas that require system coordination, it is recommended that the Canadian Credit Union Association (CCUA) – through its Credit Union Social Responsibility Committee - engage in a process to assess which of these recommendations could be advanced.

### GENERATE AWARENESS AND ENGAGEMENT WITHIN THE CREDIT UNION SECTOR

1. **Share Information and Best Practices among the Credit Union Sector**
   The sector should commit to regularly updating the website [www.impactInvesting.ca] that was created for this guidebook to showcase the range of impact investing opportunities and best practices in product development. Through the website and other system-wide communications channels (e.g. newsletters, social media), invite the credit union sector to participate and contribute their experiences, examples and questions. This should also include integrating impact investing at system-wide conferences or regional events.

2. **Review Product Development Approaches, and Share Tools and Templates**
   Credit unions can use existing networks and platforms (e.g. CCUA, Centrals and other system partners) to describe the specific approaches that they are taking to product development within their respective institutions. Ideally, they would also be able to share tools and templates that other credit unions can review and adapt. Over time, this could also include collaborating around shared standards for financial and impact performance reporting.

### VALIDATE MEMBER DEMAND, AND STRENGTHEN THE ABILITY FOR CREDIT UNIONS TO RESPOND

3. **Validate Existing or Latent Member Demand Through Research and Campaigns**
   Credit unions – individually or collectively – can commission targeted research on the demand and preferences of existing members related to impact investing, as well as assess interest from potential members. These assessments can draw on surveys conducted in the US and UK, adapted for the Canadian credit union context.[70] The results can then inform product development or marketing activities (e.g. an "invest for impact" campaign).

4. **Strengthen Staff Capacity and Education Through Professional Development**
   Credit unions can embed impact investing as a component of professional development objectives, either through in-house materials, or suggesting the topic to training providers (for example, CUSource, the professional development and education arm for Canadian credit unions and/or networks such as the Responsible Investment Association). Additionally, specific content can be developed for targeted staff members (e.g. financial advisors).

### DEVELOP SHARED PLATFORMS TO CATALYZE PRODUCT DEVELOPMENT

5. **Explore the Feasibility of Collectively Negotiating a Partnership with an Established Product Issuer**
   To help reduce transaction and monitoring costs, credit unions could collectively negotiate a product partnership with an established product issuer (e.g. Oikocredit or Calvert). Such a partnership can significantly reduce the time and effort required for each institution around partnership development, increase accessibility to smaller credit unions, leverage collective assets, and reduce investment risks.

6. **Explore the Feasibility of a National Thematic Product Accessible to Retail Investors**
   Credit unions could engage with Centrals and system affiliates to assess whether they can create a product in an established impact sector – such as affordable housing or renewable energy – to access investment opportunities and place capital

at scale. As credit unions have a bias to invest locally, the national product could be structured to have specific regional allocations. This product could also attract capital from institutional impact investors such as foundations and governments.

### STRENGTHEN THE ENABLING ENVIRONMENT FOR SOCIAL FINANCE

7. **Collaborate with Social Finance Intermediaries to Build a Pipeline of Qualified Impact Opportunities**
   The broader social finance sector has lamented the dearth of impact products and opportunities that are ready to receive investment. Credit unions can partner with local and regional intermediaries (such as community loan funds, community foundations, and business incubators and accelerators) to actively identify and vet potential opportunities, which could quickly help deepen the pool of existing opportunities. Credit unions also bring financial expertise that could be applied to strengthen the investment readiness of potential investees, and reduce the search and transaction costs of making impact investments.

8. **Build on Regional or National Policy, Regulatory and Advocacy Initiatives that Promote Social Finance**
   Social finance has been identified as a priority for the federal government, and several provincial governments – including Ontario, BC, Saskatchewan, and Nova Scotia, among others – have specific initiatives focused on social finance, social enterprise or social innovation. Some networks[71] are actively advocating for improved legal, regulatory and policy conditions, building on the recommendations on the Canadian Taskforce for Social Finance and the Canadian National Advisory Board.[72] For credit unions, this should include engagement with appropriate provincial and federal regulators.

# APPENDIX A: EXAMPLES OF RETAIL IMPACT INVESTMENT PRODUCTS

The table below provides examples of the diverse range of retail impact investment products available in Canada and internationally. The table is not intended as a comprehensive list of retail impact investment products.

| Product Name (region) | Description | Minimum Investment (or deposit) |
|---|---|---|
| **ABUNDANCE (UK)** | Established in 2012, Abundance allows individuals to invest directly in renewable energy project debentures. | £5 |
| **CALVERT FOUNDATION NOTE (US)** | Established in 1995, Calvert Foundation's Community Investment Note is a fixed income product that supports a diversified portfolio of social sector organizations and initiatives in the US and around the world. | $20 US (online) $1000 US (direct or via brokerage) |
| **COPOWER GREEN BOND (ONTARIO)** | Established in 2016, individuals can commit to a 5-year investment to re-finance loans made by CoPower to energy efficiency projects. | $5000 |
| **COMMUNITY ECONOMIC DEVELOPMENT INVESTMENT FUNDS (NOVA SCOTIA)** | Established in 1999 in Nova Scotia, CEDIFs are pools of capital that are formed through the sale of shares to community members and that are used to invest in local business and social enterprise. | Minimum set by each fund (often $1000 -$5000) |
| **CSI COMMUNITY BOND – ISSUE 1 (ONTARIO)** | In 2010, CSI raised $2 million to finance the purchase a building in Toronto as part of its co-working model. | $10,000 |
| **CSI COMMUNITY BOND – ISSUE 2 (ONTARIO)** | In 2015, CSI raised over $4 million through a community bond to finance the purchase of a second building in Toronto as part of its co-working model. | $1000 |
| **DESJARDINS PRIORITY TERRA GUARANTEED INVESTMENT CERTIFI-CATE (GIC)** | The 3- and 5- year GIC offers investors a 100% guarantee of principal. The return is linked to performance of companies in the portfolio that have been selected because of their demonstrated commitment to the environment. | $1000 |
| **DUTCH GREEN FUNDS SCHEME (NETHERLANDS)** | Established in 1995, the green funds scheme allows retail investors to invest in funds managed by banks, specifically directed at qualify-ing green projects, such as renewable energy, conservation, and organic farmland. | |
| **ESSEX SOCIAL IMPACT BOND (UK)** | Launched in 2013, the social impact bond aimed to improve out-comes for vulnerable 11–16-year-olds in Essex who are at risk, due to behavioural problems or family breakdown. The bond was open to retail investors. | £15,000 |
| **FRENCH SOLIDARITY FUNDS (FRANCE)** | Since 2001, corporate pension plans in France are required to provide employees the option to invest a portion (currently up to 10%) of employee savings schemes to unlisted solidarity organizations (i.e., social impact organizations). | 10% of pension savings schemes |
| **GOLDEN LANE HOUSING CHARITY BOND** | In 2013, the charity bond was used to raised £10 million to build 30 homes for 100 of the charitable organization's tenants. In 2014, a further £11million was raised through listed bond offered on a new charity bond platform. | £500 |

| Product Name (region) | Description | Minimum Investment (or deposit) |
|---|---|---|
| **GREEN ENERGY BONDS (UK)** | Three eco-bonds were launched in 2010, 2011 and 2015. The green energy bond offers a fixed-return opportunity to individual and corporate retail investors. Funds invested in the bond are used to purchase land for green energy projects, such as wind turbines. | £500 |
| **JUBILEE FUND INVESTMENT CERTIFICATE (MANITOBA)** | Established in 2000, the certificate is a retail product that individuals or organizations can purchase for 3- or 5- year terms. Assiniboine Credit Union administers the certificates. The capital is placed in an interest bearing account, which is used to secure loans for community economic development (CED) projects | $1000 |
| **KIVA.ORG (GLOBAL)** | Established in 2005. Individuals can provide loans on-line. Kiva works with microfinance institutions around the world to provide loans to people without access to traditional banking systems. | $25 |
| **MONTREAL COMMUNITY LOAN FUND (QUEBEC)** | Established in 1987, the fund pools investments, including from individuals, and provides accessible loans to individuals living on a low income and to community organizations that do not have access to traditional forms of finance. | |
| **OIKOCREDIT GLOBAL IMPACT GIC MSCU (ONTARIO)** | Established in 2015, the GIC product provides individual members of the MSCU with an opportunity to participate in international global development finance investments through Oikocredit International. | $500 |
| **QUÉBEC SOLIDARITY FUNDS** | Québec Solidarity investments offer a unique opportunity for retail investors to invest in local social economy businesses and initiatives such as social housing. There are several funds available to investors in the province. An example of a solidarity funds is Placement à rendement social. | |
| **RESILIENT CAPITAL PROGRAM - VANCITY CREDIT UNION (BRITISH COLUMBIA)** | Established in 2011, the program allows retail and accredited investors to invest in a long-term deposit product that is used to make debt and equity investments in eligible social enterprises and blended-value businesses. | $50,000 |
| **RSF SOCIAL FINANCE INVESTMENT NOTE (US)** | Established in 2006, RSF's Social Investment Fund pools investments, and uses the money to finance non-profit organizations and social enterprises. | $1000 (US) |
| **SAINT JOHN COMMUNITY LOAN FUND (NEW BRUNSWICK)** | Established in 1999, the loan fund pools individual investments and uses them to provide loans to people in the community that want to start businesses, return to work, or secure housing. | $250 |
| **SHARED WORLD FIXED TERM DEPOSIT - VANCITY (BRITISH COLUMBIA)** | Vancity uses member deposits in the product to provide lending capital for the micro-finance sector operating in poor areas of the world. | $100 |

| Product Name (region) | Description | Minimum Investment (or deposit) |
|---|---|---|
| **SOLARSHARE (ONTARIO)** | The 5-year and 15-year term community bonds are secured by SolarShare's assets and revenue stream, and are backed by 20-year contracts with the Province of Ontario. The funds are invested directly in solar projects. | $1000 |
| **TRILINC GLOBAL INVESTMENT FUND (GLOBAL)** | TriLinc was established in 2008. The Fund provides growth stage loans and trade finance to established small and medium sized enterprises in markets where access to affordable finance is limited. | $2000 (US) |
| **TRIODOS FAIR SHARE FUND (NETHERLANDS)** | Established in 2002, the Fund provides capital to financial institutions that demonstrate a sustainable approach toward providing financial services to under-served client groups, and to renewable energy and sustainable agriculture projects. | |
| **UNLEASHING LOCAL CAPITAL (ALBERTA)** | Established in 2012, Alberta Opportunity Development Co-operatives pool individual investor's capital to finance business development. | Minimum set by each Co-operative |

# APPENDIX B: ROADMAP CHECKLIST FOR RETAIL IMPACT INVESTING PRODUCTS

| Product Development Stage | Roadmap Summary |
|---|---|
| 1. **PLANNING** | a. **Understanding Motivations and Business Drivers:** What are our objectives and values around creating a new retail product? How will creating a new product help us to meet the short, medium, and long-term goals? What are the financial expectations for the product? What are the impact expectations for the product? |
| | b. **Understanding the Landscape for Retail Impact Investment:** Identify relevant or emerging products from the impact investment sector, look at general trends and issues that may point to unmet needs or unrealized opportunities and help to identify specific questions that will need to be addressed in the formal planning phases. |
| | c. **Exploring External Partnerships:** Develop and build on existing relationships with partner organizations to identify potential financing gaps or needs, opportunities, or specific community-based groups or organizations that could represent a financing need. |
| 2. **PRODUCT DESIGN** | a. **Validating Investor Demand:** While anecdotal evidence may suggest that members are interested in impact products, this must be further tested and validated through market research to assess their preferences and beliefs. |
| | b. **Assessing Impact Opportunities:** Assess the impact opportunity identifying the channel where provision of (retail investor) capital can generate social and/or environmental impact. |
| | c. **Determining Product Structure:** Develop a strong understanding of demand and impact opportunities to inform product structure. |
| | d. **Gaining Approval:** Prepare a presentation to the Board of Directors or Board Committee to gain approval. |
| 3. **PRE-LAUNCH** | a. **Coordinating Internal Processes:** Secure executive level buy-in and identify champions. |
| | b. **Developing a Marketing Strategy:** Clearly identify the value proposition and differentiator; clarify positioning of product within broader product suite; and, identify potential segments of target customers. |
| | c. **Developing a Sales Strategy:** Educate and engage financial advisors, investment advisors, financial planners and frontline staff. |
| 4. **LAUNCH** | a. **Issue a Press Release** is a key component of the product launch. It is important that the press release targets the segments identified in the marketing strategy. |
| | b. **Convene Events:** An effective strategy for promoting a retail impact investment product and for engaging with potential investors is to host information sessions. |
| 5. **POST-LAUNCH** | a. **Investor Engagement:** Encourage existing investors to renew their investments and attract new investors. |
| | b. **Community Engagement:** Engage with the community to understand how the retail product is meeting needs, to validate impact reporting and to identify new potential community partners and investees. |
| | c. **Reporting:** Integrate the financial results and impact of the product into reporting. |

# RESOURCES

### IMPACT INVESTING

- Purpose Capital and MaRS Centre for Impact Investing (2014) *State of the Nation: Impact Investing in Canada*
- Canada G8 Social Impact Investment Taskforce (2014) *National Advisory Board Report*
- Canadian Task Force on Social Finance (2010) *Mobilizing Private Capital for Public Good*
- Responsible Investment Association (2015) *Canadian Responsible Investment Trends Report*
- E.T. Jackson and Associates (2012) *Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry*
- JP Morgan and GIIN (2015) *Eyes on the Horizon: The Impact Investor Survey*
- G8 Social Impact Investment Task Force reports

### FINANCIAL INSTITUTIONS

- CCUA (2013) *Social Finance and Credit Unions System Brief*
- BNY Mellon (2015) *Social Finance at Scale*
- RBC (2014) *Financing Social Good – A Primer on Impact Investing in Canada*
- TD Bank (2013) *White Paper on the Landscape for Social Impact Investing*
- Triodos (2014) *Impact Investing for Everyone: A Blueprint for Retail Impact Investing*
- FSG (2014) *Banking on Shared Value*
- EVPA (2014) *Social Impact Strategies for Banks*

### DEMAND AND TRENDS

- Campden FB (2015) *Generation Gap: Why Millennials have Hooked onto Impact Investing*
- US Trust (2015) *Insights on Wealth and Worth*
- NESTA and Big Society Finance Fund (2011) *Investing for the Good of Society*
- Hope Consulting (2010) *Money for Good I*

### PERFORMANCE OF IMPACT INVESTING

- Cambridge Associates and GIIN (2015) *Impact Investing Benchmark*
- JP Morgan and GIIN (2015) *Eyes on the Horizon: The Impact Investor Survey*
- Merrill Lynch (2015) *Impact Investing: The Performance Realities*
- Morgan Stanley (2015) *Sustainable Reality*
- Wharton Social Impact Initiative (2015) *Great Expectations*

### PRODUCT DEVELOPMENT

- GIIN and Carsey School of Public Policy (2015) *Scaling U.S. Community Investing: The Investor-Product Interface*
- New Market Funds (2014) *Eight Tracks: Impact Investing in Canadian Communities*
- Bank of America and Bridges Ventures (2014) *Shifting the Lens: A De-risking Toolkit*
- Capacity Build Consulting (2013) *Community Bonds: A Non-profit Financing Tool*
- Centre for Social Innovation (2012) *Community Bond Guide*
- Bridges Ventures (2010) *Investing for Impact: Case Studies Across Asset Classes*
- ImpactBase Fund Directory
- ImpactAssets50 Fund Manager Listing

### FINANCIAL ADVISORS/ADVICE

- ImpactAssets (2013) *Risk, Return and Impact*
- Calvert Foundation (2012) *Gateways to Impact*
- NESTA and Worthstone (2012) *Financial Planners as Catalysts for Social Investment*
- Bridges Ventures (2012) *The Power of Advice in the UK Sustainable and Impact Investment Market*

### IMPACT MEASUREMENT

- Global Impact Investment Rating System (GIIRS)
- GIIN's Impact Reporting and Investment Standards (IRIS)
- B Lab / B Corp
- Global Alliance for Banking on Values (GABV)
- Sustainability Accounting Standards Board (SASB)
- Demonstrating Value

# ENDNOTES

1 Cambridge Associates and Global Impact Investing Network. (2015). Introducing the Impact Investing Benchmark.

2 National Advisory Board to the G8 Social Impact Investment Taskforce. (2014).

3 Saltuk, Y., Ali El Idrissi, A. Bouri, A.Mudaliar, and Schiff, H. (2015). Eyes on the Horizon: Impact Investment Survey. Rep. JP Morgan & The Global Impact Investment Network.

4 US Trust (2015). Insights on Wealth and Worth Survey and Morgan Stanley (2015). Sustainable Reality: Understanding the Performance of SI Strategies.

5 Canadian Credit Union Association. (2013). Social Finance Systems Brief. Retrieved from: http://www.cucentral.ca/Publications1/System%20Brief%20-%20Social%20finance%20and%20credit%20unions.pdf.

6 Responsible Investment Association (2015). 2015 Canadian Responsible Investment Trends Report. Retrieved from:https://riacanada.ca/wp-content/uploads/2015/01/RI_Trends_Report2015_EN.pdf; and Purpose Capital. (2014). State of the Nation: Impact Investing in Canada.

7 Canadian Credit Union Association. (2013). Social Finance Systems Brief. Retrieved from: http://www.cucentral.ca/Publications1/System%20Brief%20-%20Social%20finance%20and%20credit%20unions.pdf.

8 Triodos (2014). Impact Investing for Everyone: A blueprint for retail impact investing. Retrieved from: https://www.triodos.com/en/investment-management/who-we-are/news/press-releases/blueprint-for-retail-impact-investing/.

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10 Responsible Investment Association (2015). Trends Report. Retrieved from: https://riacanada.ca/wp-content/uploads/2015/01/RI_Trends_Report2015_EN.pdf.

11 In addition, Desjardins and the credit union system control the leading players in the RI mutual fund industry through NEI, Desjardins Funds and Meritas/Ocean Rock Funds.

12 Saltuk, Y., Ali El Idrissi, A. Bouri, A. Mudaliar, and Schiff, H (2015). Eyes on the Horizon: Impact Investment Survey. Rep. JP Morgan & The Global Impact Investment Network.

13 Purpose Capital. (2014). State of the Nation: Impact Investing in Canada.

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15 TD Bank Group. (2013). The Landscape for Social Impact Investing—A White Paper. Retrieved from http://www.td.com/document/PDF/corporateresponsibility/publications/The-Landscape-for-Social-ImpactInvesting-a-White-Paper-Links.pdf.

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17 Responsible Investment Association (2015). 2015 Canadian Responsible Investment Trends Report. Retrieved from: https://riacanada.ca/wp-content/uploads/2015/01/RI_Trends_Report2015_EN.pdf

18 Vancity Credit Union Annual Report (2014)

19 Purpose Capital. (2014). State of the Nation: Impact Investing in Canada. and Responsible Investment Association (2015). Trends Report. Retrieved from: https://riacanada.ca/wp-content/uploads/2015/01/RI_Trends_Report2015_EN.pdf and Impactbase

20 Purpose Capital. (2014). State of the Nation: Impact Investing in Canada.

21 RBC Wealth Management/Capgemini. (2014). World Wealth Report.

22 Morgan Stanley. ( 2015). Sustainable Signals: The Individual Investor Perspective. Retrieved from: https://www.morganstanley.com/sustainableinvesting/pdf/Sustainable_Signals.pdf.

23 ibid.

24 Accenture, (2012). The "Greater" Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth.

25 US Trust. (2015). Insights on Wealth and Worth Survey.

26 Cambridge Associates and the Global Impact Investing Network. (2015). Introducing the Impact Investing Benchmark.

27 See Credit Suisse (2011) Microfinance – an attractive portfolio diversifier. However, data are not yet conclusive, as a recent debate has noted: http://ssir.org/up_for_debate/a_coming_of_age_for_impact_investing/tim_macready.

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[29] Canadian Credit Union Association. (2013). Social Finance Systems Brief. Retrieved from: http://www.cucentral.ca/Publications1/System%20Brief%20-%20Social%20finance%20and%20credit%20unions.pdf.

[30] Purpose Capital. (2014). State of the Nation: Impact Investing in Canada.

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[33] ibid.

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[36] Purpose Capital and Venture Deli. (2012). Redefining Return: Social Finance Awareness and Opportunities in the Canadian Financial Sector.

[37] Purpose Capital. (2013). Survey of Canadian Credit Unions. Retrieved from: http://purposecap.com/portfolio/social-finance-awareness-financial-sector/.

[38] The Money for Good Survey (2010) finds that 27% of individuals surveyed learn about investment opportunities from their advisors. Advisors do not often recommend impact investing opportunities, even though there may be a demand for them. Incentives for advisors is an area that requires further exploration.

[39] This perception may be attributed to the notion that retail impact investing products are primarily offered by non-traditional issuers and secondly, that financial securities regulations are primarily designed for large and sophisticated issuers, whereas currently, many issuers of retail impact investment products tend to be significantly smaller and may not have the time and resources that are required to offer regulated investment products.

[40] Additional considerations may include assigning risk to impact investment opportunities, many of which are not publicly listed, and as such, have different disclosure requirements.

[41] RSF Social Finance (2011). A New Foundation for Portfolio Management.

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[43] Barclays (2015). The Value of Being Human: A behavioural framework for impact investing and philanthropy.

[44] ibid 2015; Morgan Stanley (2015). Sustainable Reality: Understanding the Performance of SI Strategies.

[45] Hope Consulting (2010) Money for Good: The US Market for Impact Investments and Charitable Gifts from Individual Donors and Investors.

[46] ibid 2010.

[47] ibid 2010.

[48] ibid 2010.

[49] Morgan Stanley (2015). Sustainable Reality: Understanding the Performance of SI Strategies.

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[51] Wharton University Social Impact Initiative. (2015). Great Expectations: Mission Preservation and Financial Performance in Impact Investing.

[52] Laing et al. (2012). The U.K. Social Investment Market: The Current Landscape and a Framework for Investor Decision Making. Cambridge: Cambridge Associates.

[53] The authors are grateful to Eugene Ellmen for his feedback and guidance on this section. All errors and omissions are the authors' own.

[54] We note the distinction between product issuers (who create the structured product for issuance), and intermediaries or distributors (who sell the products to the retail investors). While credit unions play the latter role when they interact with their members, they can also act as product issuers, or choose to partner with other issuers.

[55] Banking Regulation versus Securities Market Regulation, Franklin Allen and Richard Herring. A working paper for the Wharton Financial Institutions Centre. http://finance.wharton.upenn.edu/~allenf/download/Vita/0129.pdf.

[56] Certainly credit unions offer wealth management services, which include the distribution of securities,

but these are managed under strict compliance practices of licensed dealers, such as Credential Securities and QTrade Financial. They are not considered credit union products.

[57] Information obtained from the National Crodwfunding Association of Canada at http://ncfacanada.org.

[58] For an updated list and comparative analysis, see: http://ncfacanada.org/equity-crowdfunding-regulations/.

[59] See http://communitybonds.ca/shop/the-guide/ and http://communitybonds.ca/shop/templates/.

[60] See http://capacitybuild.ca/services/community-bonds/.

[61] See http://www.solarbonds.ca/invest/solar-bonds-in-rrsps.

[62] See prior research conducted by Purpose Capital on Canadian impact investors, Retrieved from: http://www.purposecap.com/wp-content/uploads/Social-Impact-Measurement-Use-Among-Canadian-Impact-Investors-Final-Report.pdf.

[63] Purpose Capital has previously issued a guidebook on social impact measurement, Retrieved from: http://purposecap.com/portfolio/investor-guidebook-social-impact-measurement/.

[64] See the following study conducted by Arabesque and Oxford (2015), Retrieved from: http://arabesque.com/oxford-study-pdf.

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[68] Creating and Distributing Impact Products for Retail Investors. See: http://reports.weforum.org/impact-investing-from-ideas-to-practice-pilots-to-strategy-ii/4-democratizing-impact-investing-for-retail-investors/4-2-creating-and-distributing--impact-products-for-retail-investors/.

[69] See State of the Nation: Impact Investing in Canada (2014) for more context; this should specifically include product issuers, institutional investors such as foundations, government agencies that can offer finance and technical supports, and the non-profit sector intermediaries that can bring specialized expertise around social finance lending and investment approaches, investment readiness services for business models, or impact measurement.

[70] See the Money for Good Survey (2010), as well as research commissioned by NESTA (2011) research on retail product demand and preferences.

[71] For example: Philanthropic Foundations of Canada and Community Foundations of Canada, Ontario Non-profit Network.

[72] See the reports of the Canadian Taskforce for Social Finance (2010) and National Advisory Board to the G8 Social Impact Investment Taskforce (2014).